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Algeria	6.00 Din.	Israel	IS1,100	Norway	7.00 N.Kr.
Austria	20 S.	Italy	1500 Lire	Oman	0.700 Rials
Bahrain	0.650 Din	Jordan	450 Fils	Portugal	90 Esc.
Belgium	45 B.Fr.	Kenya	Sh. 14.00	Qatar	6.50 Rials
Canada	C$1.20	Kuwait	500 Fils	Rep. of Ireland	70 P.
Cyprus	C£0.70	Lebanon	0.500	Saudi Arabia	6.00 R.
Denmark	8.00 D.Kr.	Libya	LDin 0.35	Spain	110 Ptas.
Egypt	100 P.	Luxembourg	45 L.Fr.	Sweden	7.00 S.Kr.
Finland	7.00 F.M.	Madeira	105 Esc.	Switzerland	2.20 S.Fr.
France	6.00 F.	Malta	35 Cents	Tunisia	0.550 Din.
Germany	2.50 D.M.	Morocco	5.50 Dh.	Turkey	T.L. 400.00
Great Britain	50 P.	Netherlands	2.75 Fl.	U.A.E.	6.50 Dirh.
Greece	80 Dr.	Nigeria	170 K.	U.S. Mil. (Eur.)	$0.85
Iran	115 Rials			Yugoslavia	240 D.

Militia in Lebanon Sets Free French Colonel in UN Unit

The Associated Press

METULLA, Israel — Militiamen in south Lebanon holding 21 Finnish soldiers as hostages released a French officer they had also taken captive, a UN spokesman said Sunday.

The spokesman, Timor Göksel said that Colonel Jean-Michel Blemdjian had been held since Friday, but that the United Nations had only learned of his detention on Sunday. Colonel Blemdjian serves with the French unit of the UN forces in Lebanon.

The Finnish troops were taken hostage by members of the Israeli-backed South Lebanon Army in an effort to secure the release of 11 militiamen held by Shiite Moslem guerrillas. The commander of the South Lebanon Army, Brigadier General Antoine Lahad, said he had ordered his men to release the Frenchman.

The militia has freed four of the 25 Finns since the seizure of the troops on Friday. The commander of the 490-man Finnish battalion, Colonel Venni Hakala, was released Friday. UN sources said he had been beaten up.

Three enlisted men were freed Saturday night in what Brigadier General Lahad called a "goodwill gesture."

Mr. Göksel said that Colonel Blemdjian, the deputy chief of operations at the UN's military headquarters in the south Lebanon port of Naqoura, was released in the village of Qantara, six miles (10 kilometers) north of Israel's border. Mr. Göksel said the officer was unharmed.

Brigadier General Lahad said in Metulla, an Israeli border town, that he saw "a sort of progress" in the negotiations to end the crisis. But UN sources said that the confrontation did not appear close to being resolved.

The general stressed that "this regrettable affair will not be over until our men are released." Leaders of the Shiite Amal militia holding the 11 South Lebanon Army men, all Shiites, have refused to let them go.

Reuters

UN troops blocked access to Qantara, Lebanon, where two of 21 hostages were being held.

The soldiers of the 5,600-man UN Interim Force in Lebanon, known as UNIFIL, have been caught in the cross fire between the mainly Christian South Lebanon Army and the Amal militia trying to dislodge them from Israel's buffer zone in southern Lebanon.

Beirut newspapers speculated that the hostage seizure was engineered by Israel to pressure the 10-nation UN force to withdraw from southern Lebanon.

Israel has long insisted that the UN troops, which have patrolled south Lebanon since 1978, have "outlived" their usefulness.

Because of the standoff, an Israeli military source said, military authorities restricted media access to south Lebanon and barred jour-

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Soviet to Stress Offense Against SDI, Officer Says

By Jim Hoagland and Dusko Doder
Washington Post Service

MOSCOW — The Soviet Union will not attempt to match the Reagan administration's costly military program in space but will instead concentrate on building cheaper offensive nuclear missiles that could overwhelm an American shield, one of the Soviet Union's highest-ranking generals has asserted in an interview.

"We are not going to take the path that the U.S. administration is trying to force us onto," Colonel General Nikolai Chervov said Friday. "We have made it clear that we will not ape the United States" in spending billions on a space system.

In addition, General Chervov suggested that Moscow had concluded that the arms control process that has governed U.S.-Soviet relations for two decades is on the verge of collapse despite the resumption of negotiations between the two nations in Geneva.

General Chervov is a senior department head on the Soviet general staff. He characterized his remarks as personal views, but he is a central figure in Soviet strategic policy-making, and his views are thought to represent those of the Soviet military establishment.

His remarks during a two-hour conversation with two American journalists also provided an authoritative Soviet view of the negotiating deadlock in the Geneva talks, which cover space weapons, strategic nuclear missiles and intermediate-range rockets stationed in Europe.

General Chervov said that the U.S. negotiators were countering the Soviet Union's demand at Geneva for a total ban on the proposed Strategic Defense Initiative by "proposing to us that we agree about some rules of conduct for the arms race in space — that is, what particular weapons shall be developed and at what time."

The Soviet Union "demands a complete ban on attack weapons in space," he said. "We want to prevent an arms race in space altogether. And we must ask what the United States is proposing to prevent this."

Moscow has mounted a major campaign in recent months to discredit the SDI, known popularly as "star wars," accusing the United States of planning to put first-strike nuclear weapons into space.

The United States has denied this, and General Chervov's remarks were evidently intended to

Pravda accused the U.S. of trying to 'wreck' SALT-2. Page 5.

provide a comprehensive response to U.S. public statements. He reiterated the Soviet Union's willingness to cut its intercontinental missile force by 25 percent "or more" in return for a ban on the space defense system and an equal cut in U.S. long-range missiles.

That proposal, which was voiced by the Soviet leader, Mikhail S. Gorbachev, in a speech in Warsaw in late April, starts from the ceiling of 2,400 missile launchers permitted under the strategic arms limitation treaty known as SALT-2, General Chervov specified.

U.S. officials said that the proposal had not been proposed formally in Geneva during the first round of talks, which ended April 23 without any noticeable progress. It is not known whether the Soviet negotiators have proposed it in the second round.

General Chervov went to some lengths to establish at the beginning of the conversation that "the Soviet Union is not afraid of the SDI."

"We are not afraid of some sort of technological breakthrough or that the United States will get a decisive advantage or superiority through superiority through the SDI," he added.

His comments seemed to suggest that Moscow had reached certain basic decisions about how to proceed with its strategic programs in case the arms control process collapsed.

Many of the points he made had been articulated in a more oblique form recently by the defense minister, Marshal Sergei L. Sokolov, and the chief of staff, Marshal Sergei F.

(Continued on Page 2, Col. 7)

Bad Dream at State Dept.: Agreement With the PLO

By Bernard Gwertzman
New York Times Service

NEWS ANALYSIS

WASHINGTON — A senior State Department official said recently that his "nightmare" was that the Palestine Liberation Organization would agree to all the conditions set by the United States for recognition by Washington, provoking a new crisis in American relations with Israel.

"What would happen then is that we'd have to do what we promised and talk to the PLO, and Israel would probably go off the reservation," the expert on Middle East affairs said. "And instead of being able to concentrate on peace negotiations, we'd have to spend our time pacifying the Israelis. That's my personal nightmare."

So far, the PLO has not accepted unequivocally the U.S. conditions — recognition of Israel's right to exist and acceptance of United Nations Security Council Resolutions 242 and 338.

Yasser Arafat, the PLO leader, said in an interview in The Wall Street Journal on Friday that he still was holding off on a public declaration. But he did not repudiate King Hussein of Jordan, who said publicly in Washington last week that the PLO had accepted the U.S. terms and was ready to name members of a joint delegation with Jordan to negotiate peace with Israel under the "umbrella" of an international conference.

Even though the PLO had not yet confirmed Hussein's statement, just the appearance of movement by the Arab side toward peace talks has led to criticism in Israel of the United States, with the attacks coming most sharply from the Likud bloc in the national unity government, led by Foreign Minister Yitzhak Shamir.

The Israelis were upset because Secretary of State George P. Shultz called Hussein's visit an important step forward toward ending the Middle East diplomatic deadlock.

Prime Minister Shimon Peres, the Labor Party leader, has not closed the door on peace talks, because he may decide to force a new election on that question next year to forestall handing his job over to Mr. Shamir, as he is scheduled to do in October 1986. But for the moment, he has chosen to be much less supportive of the U.S. efforts than the Reagan administration would like.

In some of the harshest words against the United States in the past two years, many Israeli officials have accused the administration of being taken in by Hussein's words and of being too eager to deal with Palestinians in the Palestine National Council, which most Israelis regard as tantamount to talking to the PLO.

Since 1983, when Arab nations did not support the U.S.-negotiated accord between Lebanon and Israel, the Reagan administration had remained aloof from Middle East diplomacy, contending that it was up to Jordan and the PLO to agree to negotiate directly with Israel. That position fitted in well with Israel's desires.

Faced with an economic crisis at home and having to end the occupation of Lebanon, the Israeli leaders made it known they were not looking for the additional burden of negotiations on the future of the Israeli-occupied West Bank and Gaza. Perhaps in 1986, Israeli officials said, but not now.

Any negotiations involving Jordan and Palestinians would inevitably force Israel to face up to such difficult political issues as the delineation of Israel's borders, the future of Israeli settlements in the West Bank, the status of Jerusalem and the kind of self-government that should be given Palestinians in the region.

On all these questions, Israel was sure to have significant differences with the United States.

For the moment, there is no agreement on the format for negotiations between Israel and the Jordan-Palestinian

(Continued on Page 2, Col. 6)

Most Americans in Poll Back Curbs on Imports

By Clyde H. Farnsworth
New York Times Service

NEW YORK — Most Americans think that trade with other countries costs jobs in the United States, and they consider restrictions on imports a good idea even if it means less choice among the products they want to buy, according to a New York Times-CBS News Poll.

In five Middle Western states whose factories have faced the strongest competition from imported goods, 75 percent of the residents blame foreign trade for the loss of jobs, the survey showed.

However, even in Western states, where the conflict between imports and jobs has been less intense, 62 percent link trade with job losses. Nationally, 69 percent felt that way.

At the same time, 53 percent of Americans, when asked simply whether trade helped the economy or not, replied that it did, an indication of some uncertainty in the public attitude.

The poll of 1,509 adults, which was conducted just a few days before the government reported a record trade deficit of $11.85 billion in April, provided fresh evidence of rising protectionism.

The findings are a backdrop to the demands in Washington for curbs on Japanese automobiles, Korean shoes, Chinese shirts, Mexican cement, Canadian lumber, French wines and many other products. Moreover, the protectionist view is strongest among the small but vocal minority that regards trade as more important than other problems, such as the budget deficit or arms control.

"They show that the consensus for keeping the U.S. market open is beginning to erode," said Rufus Yerxa, staff director of the House Ways and Means Committee's trade subcommittee.

The poll, which was conducted by telephone from May 29 to June 2 and has a margin of sampling error of plus or minus three percentage points, found that 70 percent of the population thought that trade restrictions were a good idea while 21 percent did not.

Asked whether restrictions still would be a good idea if they resulted in a narrower choice for consumers, 60 percent said yes. Then, asked if they would still be a good idea even if foreign countries retaliated by curbing U.S. exports, 41 percent still said yes.

"These results don't really surprise me," said Isaiah Frank, international economics professor at Johns Hopkins School for Advanced International Studies, an ardent free trader.

"After all," he said, "the advantages of trade, a more dynamic economy and higher standard of living for everyone, are generally taken for granted, while the disadvantages are felt in a very personal way by friends, family, neighbors in the community. The negatives in this case overwhelm the positive."

Nearly a quarter of the respondents in the latest poll ranked trade as the first or second most important national issue, when asked to compare it with arms control, tax reform, the budget deficit and conflicts in Central America.

Several analysts suggested that the finding that a majority felt trade helped the economy while hurting jobs betrayed a perception that trade was managed in a way that was unfair to the United States.

Mark A. Anderson, a foreign trade analyst for the American Federation of Labor and Congress of Industrial Organizations, cited several examples: U.S. products' lack of access to many foreign markets, such as Japan or Mexico; heavily subsidized exports from a number of developed and developing countries, and other trade dislocations caused by the high value of the U.S. dollar, which brings in cheap imports and discourages exports because they are made more costly.

William D. Eberle, a former U.S. trade representative, argued that another example of unfairness was that the United States took 64 percent of all the exports of developing countries, which is a far higher proportion than other rich countries. The European Community takes 25 percent, Japan 8 percent and other countries 3 percent.

Mr. Eberle and other analysts said that the poll results emphasized the urgent need for the Reagan administration to find a coherent strategy for dealing with the problems of unfairness in trade and of the dollar.

U.S. Calls Walker a New Breed of Spy

Money Motive, Nature of Damage Make Navy Case Unique

By Joel Brinkley
New York Times Service

WASHINGTON — In unraveling what may be the largest espionage ring in U.S. history, federal officials say they have discovered a new breed of spy.

Both the method of operation attributed to John A. Walker Jr. and the three men being held as his accomplices and the kind of damage they may have caused, officials say, make this purported spy ring unlike any other.

The FBI has charged in court documents and interviews that Mr. Walker, 47, recruited friends and relatives around the world and coached them on spying techniques. Then, like a businessman visiting branch offices, he flew around in his own small plane to collect the classified material and sell it to the Soviet Union.

But what concerns American officials most is how people holding relatively low positions in the U.S. Navy may have enabled Mr. Walker to break through the system that the United States uses to safeguard its most important secrets.

"You protect information by compartmentalizing," an intelligence source said. Details of critical national security matters are spread among several offices so that almost no one has access to all of it.

But the FBI charges that Mr. Walker and his accomplices managed to penetrate a variety of facilities.

The intelligence source said the navy affair had "the potential to be the most damaging case" since Julius and Ethel Rosenberg were convicted in 1951 on charges of giving the Soviet Union plans for the atomic bomb.

Another troubling aspect of the Walker case, officials say, is that unlike many prominent spies of the past, those who have been arrested seem to have been motivated by money rather than ideology. Since 1979, Mr. Walker may have netted $80,000 to $100,000 a year from spying, according to the Internal Revenue Service.

Federal officials say it is much more difficult to detect people who are spying for money because greed is a widespread, untraceable motivation.

A daily drama of disclosures and arrests has unfolded since Mr. Walker was arrested May 20 and

(Continued on Page 2, Col. 5)

Russians Break Siege At Afghan Border Town

The Associated Press

ISLAMABAD, Pakistan — A Soviet armored column broke through the last guerrilla lines to relieve the besieged Afghan border town of Barikot after two weeks of fighting, rebel officials said.

They said that Soviet commandos were battling Afghan rebels on nearby mountaintops.

Barikot is at the head of the Kunar Valley and close to the border with Pakistan. Guerrillas have besieged the town for months at a time over the past four years and it has had to be resupplied by air for the past year.

A rebel official said Saturday that Soviet tanks and armored personnel carriers reached Barikot on Friday night. The armor, he reported, led the way for a force of about 10,000 Soviet troops that began an offensive three weeks ago to seize the Kunar and lift the siege at Barikot.

"But we are not finished," the rebel official said. "The mujahidin are still strong." The mujahidin are Moslem guerrillas.

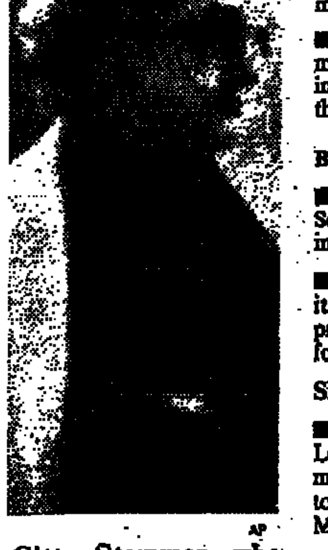
Soviet troops entered Afghanistan at the end of 1979 and presided over the removal of one Marxist government and its replacement by another. The Kabul government now is supported by an estimated 115,000 Soviet troops. The rebels operate from bases in Pakistan, bringing arms and supplies across the border.

A guerrilla said, "It looks like a big victory for the Russians." Thousands of villagers were fleeing the valley, trying to get across the mountains into Pakistan, the guerrillas said.

Pakistan has complained that Afghan planes attacked the Pakistani village of Sweer across the border May 31, killing 12 persons and injuring 31.

Pakistan's president, General Mohammed Zia ul-Haq toured Sweer on Saturday. He said Pakistan would not continue to endure attacks and violations by Afghan planes and would strike back, "whatever the consequences."

INSIDE



AP

Gitta Stammer, who says she harbored Dr. Josef Mengele, outside her home near São Paulo after being questioned by police. Page 4.

The Associated Press

Bombs Explode Near Palace as Belaúnde Meets Alfonsín

A policeman stands in front of a car that exploded outside the presidential palace in Lima on Saturday night as President Raúl Alfonsín of Argentina and President Fernando Belaúnde Terry of Peru were meeting at the palace. Two persons were killed and 18 injured after terrorists set off two car bombs in the capital, cut off electricity to large parts of the nation and set fires at 10 shopping centers. The two dead apparently were killed by police. Police arrested more than 900 people. They blamed the violence on Shining Path, a Maoist group.

Dry Clubs Toast Teen-Age Sobriety in U.S.

By Dirk Johnson
New York Times Service

FAIRFIELD, Connecticut — Since it opened earlier this year, the "Let's Dance" discotheque has been packed on Friday and Saturday nights with hundreds of teen-agers dancing to rock music.

The discotheque, which does not serve any alcoholic drinks, will expand to a four-night schedule during the summer and plans to open two branches. Similar clubs have opened throughout the New York City region.

The success of the dry clubs, many educators and students said, is among several signs that alcohol and drug use are starting to decline among teen-agers. Just a few years ago, club owners said, teen-age discotheques would have flopped. Illegal use of alcohol was the centerpiece of many social gatherings.

To be sure, beer continues to flow at some suburban house parties, and many teen-agers continue to find a way to get into adult nightclubs.

But at "Let's Dance" one recent night, the teen-agers seemed content with soft drinks. "It's a choice between dancing and drinking," said Nicole Paternoster, 17, of Fairfield, "and I'd rather dance."

While drinking and drug use remain prevalent among some, abstinence has become an accepted, even esteemed, way of social life for many teen-agers. Indeed, a youth temperance movement has emerged at high schools, led by student groups opposed to drunken driving.

"Ten years ago, a student couldn't get elected if he wasn't willing to have a beer," said David Delgado, an adult adviser to the National Association of Student Councils. "That's certainly changed."

Peer pressure has begun to cut both ways, he said. Heavy drinkers are viewed as derelict as much as daring. "The nondrinkers have the upper hand now," he said.

A powerful desire for success among young people, together with a prevailing social conservatism, have made excessive drinking unfashionable, counselors say.

The turning point, Mr. Delgado and others said, came with the formation of groups such as Safe Rides and Students Against Drunk Driving, which are part of a national movement to persuade youths not to drink and drive.

Connecticut, joining several other states, voted last month to raise the legal drinking age from 20 to 21. Beyond safe driving, local student groups such as Growing Up Sober and Peers Reaching Out promote wholesome values generally.

At "Let's Dance," a disk jockey opens each night's entertainment by asking, "Are you having fun?" When the cheers die down, he adds, "See, you can have fun without drinking."

At one time, such encouragement might have drawn snickers. But inside the club, the teen-agers evidently did not equate partying with intoxication.

"When we went to the prom," said Kier Staiano, 27, a teacher at Bridgeport Central High School, "we thought it was funny to get drunk and act stupid. These kids just think it's stupid."

Miss Paternoster, who comes to the Fairfield club every weekend, said she found beer parties "pretty boring." Since the dance club opened, she said, the number of house parties has decreased.

"This is where everybody goes," she said, "even the ones who don't like to dance."

At "Let's Dance," young customers said they welcomed the strictly enforced dress code and presence of uniformed police. Both the club and parking lot are patrolled, and dress rules are detailed in a sign at the entrance. It states: "No leather jackets or vests, T-shirts, dirty or ragged jeans will be permitted. Only collared shirts will be allowed."

Most of the club's 600 or so customers on Friday and Saturday nights are 16 to 18 years of age.

When he opened the club, Ron DeMatteo, the co-owner, expected teen-agers to sneak alcohol onto the premises. So far, however, he said, the club has discovered only two empty beer cans in a washroom.

"I've got to think that drinking is less important to kids now," he said. "There's nothing so awesome about this place. If kids wanted to drink, they wouldn't come here week after week."

Nicaraguan Rebels Expected To Issue a Code of Conduct

By Leslie H. Gelb
New York Times Service

WASHINGTON — The Nicaraguan rebels, under prodding from the Reagan administration, are expected to make a new effort this week to project a more democratic image, according to administration officials and congressional sources.

The officials said that the rebels would issue a "constitution-like document" or code of conduct designed to ensure civilian control of their military wing and to soften their identification with the regime of the late Nicaraguan dictator, Anastasio Somoza.

The goal is to reduce the power and lower the profile of the rebels' military leaders, who generally had closer ties to the Somoza dictatorship than did the rebels' political leaders.

According to administration officials, the rebel document will call for the formation of a united opposition committed to democratic principles and the rejection of a military government. It will guarantee human rights, political pluralism, free elections, civilian control of the armed forces and a program for national reconciliation and reconstruction, they said.

"We declare," the document states, "that the cause of democracy in Nicaragua is as vital in Nicaragua as for all free countries and particularly for Central America."

Bosco Matamoros, the rebels' spokesman in Washington, came close to confirming the preparation of a code of conduct. The rebels' principles "are the same as before," he said, "but as the situation changes, a new mechanism is needed to implement them."

But Edgar Chamorro, who has opposed the Nicaraguan government but was dismissed as a civilian director of the Nicaraguan Democratic Force in November for publicly criticizing the rebels, said that the expected changes were "not enough."

"It will not help much because people will see it as better wrapping of the same group," he said. "This is not the same as saying we should seek a political solution through negotiations."

Reagan administration officials said the code of conduct would be issued not just by the Nicaraguan Democratic Force, which is the rebel group with the closest previous ties to the Somoza regime, but they would not specify the other expected signers.

Enrique Bermúdez, a former National Guard officer, is the military commander of the Nicaraguan Democratic Force, the largest rebel group, which is based in Honduras. Adolfo Calero is the president of the group's six-man political directorate.

The two other major rebel groups are the Democratic Revolutionary Alliance, based in Costa Rica, and members of the Miskito and Rama Indian tribes in eastern Nicaragua.

■ Reagan Denies War Plan

President Ronald Reagan, lobbying the House of Representatives to resume aid to the anti-government rebels in Nicaragua, asserted Saturday in Washington that the United States does not have any plans to go to war in Central America, the Los Angeles Times reported.

The Senate voted Thursday to approve a package of $38 million in nonmilitary aid for rebels fighting the Sandinist government in Managua. Urging the House to adopt a similar proposal to provide $27 million, Mr. Reagan, in his weekly radio address, noted that some House members also "claim that the United States plans to become militarily involved in Central America."

"Well," he added, "no such plan exists."

He said that the assertion was "simply a distraction from the two paramount questions that must be faced" by every House member: "Will you support those struggling for democracy — will you resist the Soviets' brazen attempt to impose communism on our doorstep — or won't you?"

House Democratic leaders are expected to back an alternative that would funnel a reduced amount of nonmilitary aid through the International Red Cross and the United Nations, instead of through the Reagan administration. Also, the Democratic proposal would retain, against administration wishes, the ban on arms aid to the rebels, which the Senate voted to repeal.

In 2-1 Vote, Swiss Reject Anti-Abortion Measure

The Associated Press

GENEVA — Swiss voters defeated by a ratio of more than 2 to 1 on Sunday a proposed constitutional amendment that would have sharply limited legal abortions and banned some contraceptives.

The resolution was defeated by a popular vote of 1,002,245 to 450,752, or 69 percent to 31 percent, according to official results from Switzerland's 26 cantons. It was rejected in 19 cantons and approved in seven.

Under Swiss law, a constitutional amendment must be approved by a majority of the cantons and of the population.

The measure was aimed at banning all abortions except those necessary to save the life of the pregnant woman and would have barred the use of certain "abortive" contraceptives such as the intrauterine device and "morning after" pill, which is not sold in Switzerland.

The measure, written by a group of mainly Roman Catholic and conservative citizens, would have required federal authorities to ensure legislative protection of the "right to life."

Under Swiss law in effect since 1942, abortions are legal to avert "grave damage" to a pregnant woman's health. Over time, the practice has become more liberal.

A group calling itself the "Swiss Action committee against the Right-to-Life Initiative" said the defeat was an indication that Swiss citizens were not prepared to "move backwards" on the issue of abortion.

It said voters, by rejecting the initiative, recognized a woman's right to choose whether to have an abortion.

The anti-abortion movement has argued that 95 percent of an estimated 15,000 abortions performed annually in Switzerland are done for nonmedical reasons.

The proposed amendment had collected a record 227,000 signatures, well over the 100,000 required to force a referendum under Switzerland's system of direct democracy.

The proposal was backed by the Swiss Conference of Bishops, which usually does not take sides in referendum campaigns, and opposed by Switzerland's main Protestant body, the Evangelical Church League.

Reuters

LEADERS AT AIR SHOW — Prime Ministers Rajiv Gandhi of India, left, and Laurent Fabius of France watch a display at the Paris Air Show at Le Bourget airport. Among the planes demonstrated were France's Mirage 2000 fighter, of which India has ordered 40, and the Indian-built HTT-34 trainer. The 10-day show ended Sunday.

Arab League Calls for Beirut Truce, Rejects PLO's Call for Investigation

Reuters

TUNIS — The Palestine Liberation Organization failed Sunday in an effort to obtain Arab League support for an inquiry into the fighting at three Palestinian refugee camps in Beirut and a condemnation of Syria's role there.

A resolution approved at the end of a two-day emergency meeting of the 21-member league — a meeting that the PLO had requested — called for an immediate cease-fire and withdrawal of forces besieging the camps.

But it did not contain a PLO demand for a commission of inquiry into alleged massacres by the Syrian-backed Shiite Moslem militia Amal or a provision for rebuking Syria.

The resolution, which was worked out during a meeting marked by clashes between Syria and the PLO, also called for the release of prisoners and for the authorizing of the International Red Cross to enter the camps to treat the wounded.

Farouk Kaddoumi, head of the PLO's political department, said that, nevertheless, he regarded the meeting as a qualified success because the other measures had been adopted and because the resolution called for the league council to meet again on June 24 to review progress.

"Syria is becoming more and more isolated now in the Arab world," Mr. Kaddoumi said.

He added that 10 out of the 21 league members were in favor of an extraordinary Arab summit meeting, as proposed by the PLO's leader, Yasser Arafat. When Mr. Arafat made such a proposal at Saturday's opening session, the Syrian delegation walked out.

Syria's foreign minister, Farouk al-Sharaa, said it was out of order for Mr. Arafat, who in PLO terms is a head of state, to address the meeting.

In an addendum at the end of Sunday's final resolution, Syria expressed its reservations about the text, describing it as interference in the internal affairs of Lebanon. Lebanon boycotted the session.

The resolution also charged the league's secretary-general, Chedli Klibi, with contacting all the parties concerned in order to ensure that the cease-fire was respected and asked him to report on the carrying out of the resolution at the June 24 council meeting.

■ Fighting Continues

Fighting broke out again Sunday at the Palestinian camps, United Press International reported from Beirut.

A three-hour early-morning gun battle in West Beirut and two later clashes erupted despite a security crackdown, with scores of new roadblocks and increased patrols around the capital by Amal members and allied militias.

The battles pitted the Lebanese Army's mostly Shiite 6th Brigade against Palestinian and Sunni Moslem forces. Syrian-mediated peace talks were deadlocked, with the Palestinians refusing to surrender all their weapons.

Since the fighting broke out May 19, 534 people have been killed and 2,260 have been wounded.

On Saturday, the first successful mission to the besieged Borge Barajni camp brought tons of food, water and medical supplies donated by an Austrian relief agency.

The Austrian ambassador, George Znidaric, who accompanied the seven-truck United Nations convoy, said that two mortar explosions in the camp of 20,000 residents had killed five children and wounded eight other persons. Robert Gallagher, a Canadian who is director of the UN Relief and Works Agency's efforts to aid Palestinian refugees, also accompanied the convoy.

WORLD BRIEFS

Riots Over Quotas Kill 20 in India

NEW DELHI (Reuters) — Twenty persons were killed, including 14 who burned to death, during fighting Sunday in Gujarat state over job and college quotas for underprivileged groups.

The police said that the worst violence occurred in Ahmedabad, where rows of houses were set ablaze in the city's old quarter. They said that 14 bodies had been recovered and that more people might have been trapped by the flames.

The violence was the latest in a series of demonstrations against a government decision to increase the number of government jobs and college spaces for underprivileged people, which meant there were fewer available for the middle and upper classes. The authorities reported that nearly 170 people have died since the protest started three months ago.

Damages Are Set for Klan Defendants

WINSTON-SALEM, North Carolina (AP) — A federal jury has ordered eight Ku Klux Klansmen, Nazis and policemen to pay $355,100 to the widow of one of five Communists shot to death in a 1979 anti-Klan rally in Greensboro, North Carolina.

The panel, ruling Saturday at the end of a 13-week trial of a $48-million civil suit, found the eight liable Friday in the death of Michael Nathan. The panel rejected charges of conspiracy in the deaths.

The six-member jury also ordered four of the defendants to pay $38,360 to one wounded demonstrator and two of them to pay $1,500 to another wounded marcher. On Friday, it found four Klan and Nazi defendants liable in the assault and battery of Mr. Nathan and the two wounded demonstrators.

EC Agrees to Talks With Comecon

STRESA, Italy (Reuters) — Foreign ministers of the European Community agreed Saturday to open an informal dialogue with Comecon, the East bloc trade alliance, according to France's minister of external relations, Roland Dumas.

Diplomats said that the ministers accepted in principle a request by Italy, which currently holds the EC's rotating presidency, to respond positively to a Comecon approach for new talks made by Mikhail S. Gorbachev, the Soviet leader.

Mr. Gorbachev made the approach to Prime Minister Bettino Craxi of Italy during Mr. Craxi's visit to Moscow last month. Mr. Craxi is to meet the Polish foreign minister, Stefan Olszowski, as Comecon's emissary for further discussions in Rome on June 20, the diplomats added.

Fewer U.S. Homes Affected by Crime

WASHINGTON (AP) — About one in four U.S. households were victims of violent crime or theft last year, and the proportion of homes affected by crime reached its lowest level since 1975, the Justice Department said Sunday.

In a series of studies examining crime in the United States, the Bureau of Justice Statistics found that 22.8 million households, or 26 percent, were "touched" by crime in 1984. This was about 800,000 fewer households than in 1983 and about two million fewer than in 1982. A household is considered "touched" if there was a burglary, auto theft or household larceny, or if a household member was raped, robbed, assaulted or a victim of personal larceny.

People living in high-income households, blacks and people living in central cities were victims more often than those in middle-income households, whites and people living in the suburbs and rural areas, the report said. The proportion of victimized households fell to 26 percent of total households in 1984, compared with 27.4 percent in 1983.

10 Injured in Clash at Golden Temple

AMRITSAR, India (Reuters) — Ten persons were injured Sunday in fighting between militant and moderate Sikhs during a meeting at the Golden Temple in Amritsar.

The fighting, which went on for nearly 90 minutes in a hall crowded with 25,000 people, broke out when militants shouted slogans praising an extremist leader, Jarnail Singh Bhindranwale, who was killed directing the defense of the Golden Temple during an assault by Indian troops a year ago.

Guards at the meeting, organized by supporters of Harchand Singh Longowal, the moderate president of the main Sikh political party, Akali Dal, attacked the militants with wooden staves. The militants are led by Mr. Bhindranwale's father, Joginder Singh.

27 German Soccer Fans Arrested

HAMBURG (UPI) — West German soccer fans caused two separate disturbances before and after professional club matches in Hamburg and near Berlin, police said Sunday. A total of 27 persons were arrested.

Police made 23 arrests when they dispersed supporters of the Hamburg first division team and the Schalke team from Gelsenkirchen who fought in Hamburg's St. Pauli district after Saturday's game.

Also Saturday, 60 West Berliners traveling through East Germany on a train to Brunswick to see the Brunswick team play Munich ripped out seats and terrorized other passengers, a police spokesman said. He said four of the rowdy fans were arrested when the train arrived in West Germany.

For the Record

The Sudanese authorities released on Sunday three former ministers who were detained after the military coup on April 6, Egypt's Middle East News Agency reported from Khartoum. Ali Shammu was information minister, Abdel-Salam Saleh Isa was health minister and Youssef Soliman was minister of state for energy. *(Reuters)*

John Gunther Dean, who has been the U.S. ambassador to Thailand for three years, left Bangkok last week saying he expected to become ambassador to India in the next few months. *(NYT)*

Indonesia will execute three Communists who were sentenced to death in the 1970s for taking part in an abortive coup in 1965, despite appeals from the Australian and Dutch governments, Foreign Minister Mochtar Kusumaatmadja said Saturday. *(Reuters)*

Three men suspected of plotting to kill Prime Minister Rajiv Gandhi of India were arrested Thursday as they entered Puerto Rico, officials said. They said that two Indians had flown from the Netherlands and a German had flown from Colombia. Mr. Gandhi is to arrive Tuesday in Washington. *(AFP)*

Ohio State University's trustees voted 6-3 on Friday to withdraw the institution's $10.8 million invested in companies operating in South Africa, the university announced. *(Reuters)*

Two Soviet cosmonauts docked their Soyuz T-13 with the Salyut-7 space station Saturday, using a new distance-determining device in the first reported instance of a Soviet manual docking. Dockings are normally done automatically under mission control in Moscow. *(Reuters)*

French Colonel With UN Unit Is Freed by Militia in Lebanon

(Continued from Page 1)

nalists from reaching the UN headquarters at Naqoura.

Mr. Göksel said that Colonel Blemdjian had been "conducting contacts" with the South Lebanon Army in Qantara.

He said said Colonel Blemdjian, who was exhausted after 48 hours of mediation, requested he be replaced "but when he tried to leave he was told he, too, was a hostage."

Meanwhile, seven Israeli Army officers went to Qantara to discuss the crisis with South Lebanon Army officers after Prime Minister Shimon Peres' cabinet said it would "do all in its power to ensure the safety" of the UN hostages.

Two of the Finns were being held near Qantara. The other 19, who were seized as they returned in a bus from furlough in Israel, are being held in a separate location. They include a major and two lieutenants.

Mr. Göksel said the South Lebanon Army moved the 19 from the village of Adaisseh. Sources said they had been taken to Marjayoun, the South Lebanon Army's main base. Mr. Göksel could not confirm that.

The sources said the hostages are being held by about 50 South Lebanese Army members. UN troops, including Finns, have ringed Qantara but have made no effort to move in on the army positions.

Bad Dream At State

(Continued from Page 1)

group, which Hussein wants in the context of an international conference.

The Reagan administration, which criticized the Carter administration for being interested in 1977 in reviving the Geneva conference sponsored by the United States and the Soviet Union in 1973, has inveighed for so long against having the Russians at such a meeting that it would be difficult for it to accept the Hussein plan.

To make it easier for the king, the administration has agreed to meet soon with a Jordan-Palestinian delegation that would include some independent, non-PLO members of the Palestine National Council, which serves as a Palestinian parliament. If Mr. Arafat accepts the U.S. terms explicitly and publicly, the United States also would sit down with PLO members.

U.S. Spy Case: One of a Kind

(Continued from Page 1)

charged with spying for the Soviet Union over the last two decades. Mr. Walker's brother Arthur, 50, also a retired navy officer, his son Michael, 22, a navy yeoman aboard the nuclear carrier Nimitz, and his longtime friend, Jerry A. Whitworth, 45, a retired navy radioman, have been arrested in connection with the case.

Authorities said last week that they could not predict how far the investigation would take them or how many more people they would arrest. A senior government official said that disclosures made so far represented "only the tip of the iceberg."

The navy has assigned a high-level team to investigate how much damage the purported spy ring may have caused and what must be done to repair it.

So far John Walker has told the authorities little, aside from "a few offhand remarks" shortly after his arrest, an intelligence source said. The authorities say that the other three suspects have told them more.

At worst, analysts say, Mr. Walker and the others may have given the Soviet Union enough information to cripple the U.S. defense against Soviet nuclear submarines and to make it easier for the Soviet military to track American submarines. But many of those analysts say the damage is likely to be less severe.

Kasparov Assails Choice of Venue For Chess Match

Agence France-Presse

BELGRADE — The decision to replay the world chess championship in Moscow is the "worst of all possibilities," the challenger, Gary Kasparov, said in an interview published Sunday in the Yugoslav newspaper Sport.

However, Mr. Kasparov said that his chances of beating the titleholder, Anatoli Karpov, were much greater than at the start of the original championship series in Moscow last September.

The tournament was halted five months later after a record 48 games, to the annoyance of Mr. Kasparov, whose lead over his fellow Soviet citizen had been reduced from 5-0 to 5-3.

"It has been set up by the International Chess Federation and the Soviet federation for him to retain the title at any price," Mr. Kasparov asserted, referring to Mr. Karpov.

Russians to Stress Offense Against SDI, General Says

(Continued from Page 1)

Akhromeyev. But General Chervov was far more explicit.

To counter U.S. efforts in space, he said, "we will have both an increase in offensive strategic weapons, and correspondingly we will take certain defensive measures".

By noting that building new types of offensive weapons to try to thwart the space shield would be "far cheaper, more economic" and by omitting any detailed discussion of the corresponding defensive measures, General Chervov clearly established the Soviet priority in responding to the space defense plan.

Testing of space weapons such as laser-beam and particle-ray devices intended to destroy missiles as they are launched "will be the cause of the breakdown of all treaties and agreements on arms control," he said. "The SDI can only move us closer to nuclear war."

The Reagan administration has said that it is prepared to discuss space weapons at Geneva but that it is not prepared to foreclose the option of developing such weapons in the future. U.S. officials accuse the Russians of having a secret program similar to the Strategic Defense Initiative already in progress and of violating the terms of existing arms agreements.

On the other issues being discussed at Geneva, General Chervov said that the Reagan administration's deliberations over whether to continuing observing the unratified SALT-2 agreement and Anti-Ballistic Missile Treaty "make it difficult to predict what the future of arms control will be."

In discussing the negotiations aimed at curbing Soviet SS-20 and U.S. Pershing-2 and cruise missiles in Europe, General Chervov called attention to a recent statement by Mr. Gorbachev repeating that the Russians had instituted a moratorium on SS-20 deployment until November.

A U.S. response to the moratorium in Europe would lead the Soviet Union to propose limits on this type of missile at Geneva "in about one or two months."

Indian Engineer to Join Mission of U.S. Shuttle

Reuters

WASHINGTON — An Indian engineer will be aboard a U.S. space shuttle mission next year to help launch a telecommunications satellite for India, according to an Indian Embassy official.

The U.S.-Indian space mission will be announced officially this week during the visit of Prime Minister Rajiv Gandhi of India.

AMERICAN TOPICS

Past and Present Clash in Houston

Four years ago Kathy Whitmire was elected mayor of Houston, defeating the incumbent, Louie Welch, who during his 10 years in office had been criticized for failing to provide adequately for the city's explosive growth — refusing to raise sewer fees, for example, leaving the sewer system woefully inadequate.

Mrs. Whitmire, 36, has been criticized, in turn, for failing to bring new businesses to the city at a time of economic retrenchment. She says she intends to run for a third two-year term in the November election. The New York Times reports that her announced opponent is Mr. Welch, 56, her predecessor, and head of the city's chamber of commerce.

The Associated Press

YOUNGEST ASTRONAUT — Tammy Jernigan, 26, met with reporters recently at Moffett Field in Mountain View, California, after she was named America's youngest astronaut. She is a graduate of Stanford University and currently is working on a doctorate in astrophysics at the University of California at Berkeley.

Short Takes

A drive to ratify **a constitutional amendment that would have given Washington, D.C., full congressional representation with two U.S. senators and one representative has failed. The seven-year deadline passed with only 16 of the necessary 38 states assenting. Now backers are pushing to make the District of Columbia the 51st state, to be called New Columbia. This requires only a simple majority vote of Congress. But it is subject to presidential veto, and President Ronald Reagan is against it.**

The Nautilus was launched in 1954 as the world's first nuclear-powered submarine. In 1958 it became the first vessel to sail beneath the Arctic ice cap over the North Pole. Decommissioned in 1980, it is en route under tow from Mare Island, California, to its final destination as a naval museum exhibit in Groton, Connecticut. It is to arrive July 6.

The state of "Taxachusetts" no longer exists, according to Governor Michael S. Dukakis of Massachusetts. In fact, the governor boasts, the tax burden in the state has fallen below the national average. He said he plans to keep it that way with a temporary tax cut this year and opposition to what he considers excessive increases proposed for teachers' salaries and welfare payments.

Shorter Takes: Salt Lake City has joined the list of U.S. metropolitan areas with a population of more than 1 million, bringing the total to 37. . . . The home of Franklin D. Roosevelt at Hyde Park, New York, has been largely reopened to the public three years after a serious fire. Reconstruction cost $2 million.

Notes About People

The United States, unlike Britain, has no official poet laureate, but each year a Poetry Consultant to the Library of Congress, who draws a $35,000 stipend for helping the library, is named. The 1985-86 winner, designated by Daniel J. Boorstin, the librarian of Congress, is **Gwendolyn Brooks**, 67, of Chicago, most of whose verse concerns black urban life. She won a Pulitzer prize in 1949.

Gina Lollobrigida, 57, the Italian film star, was dining out in Manhattan when, she said, she bit into a shrimp and chipped a tooth on a "brown, pebble-like substance." Last year she sued Westin Hotels, owner of the restaurant, for $10 million, and now has settled for $50,000. Her attorney said the chipped tooth cost her a contract for a fashion appearance in Italy.

When You've Got It, Flaunt It

Michael S. Berman, a former aide to Walter F. Mondale, and his wife, Carol, have this message on their telephone recorder:

"Hello, this is Carol. Michael and I are not able to answer your call right now because we are out social climbing. Please leave your name, phone number, time of call and credentials so we can decide whether to respond."

— Compiled by
ARTHUR HIGBEE

Fight Debt First, Latin American Officials Tell U.S.

By John M. Goshko
Washington Post Service

WASHINGTON — Many Latin American leaders and diplomats say they believe that the Reagan administration's preoccupation with El Salvador and Nicaragua could hinder the cause of democracy in the region's largest and richest countries.

These leaders say that current U.S. policy, focused on thwarting what the administration sees as the threat of Communist-backed subversion in Central America and the Caribbean, is a classic example of what one diplomat calls "the United States chasing the wrong bouncing ball" in setting its Latin American priorities.

According to this view, the future political and economic direction of Latin America will be determined not in Central America but in large countries such as Argentina and Mexico — countries that have the size, resources and influence needed to make a major impact on the region, and perhaps ultimately to play an increasing role on the world stage.

That point is made insistently by a cross section of Latin American politicians, bureaucrats and diplomats. It is echoed in the United States by academic experts on Latin America and by representatives of U.S. banks and businesses whose interests depend increasingly on Latin America's economic health.

But before the larger countries can provide real leadership for an emerging Latin America, they must grapple with formidable domestic problems that threaten to overwhelm the fragile trend toward democracy in the region now.

Domestic problems differ from one country to another, but almost all are rooted in the region's staggering burden of debt. Last year Latin America was forced to export $27.6 billion of its sparse financial resources in payments to foreign banks.

Governments facing debt see that problem as a far greater threat to inter-American and global security than leftist revolutionaries in Central America. Those who have pleaded for U.S. help, however, see the response as sparse, sporadic and overly reliant on the austerity policies of the International Monetary Fund.

The Latin Americans do credit Washington with reacting swiftly to financial emergencies in their countries. But Lucio García del Solar, the Argentine ambassador to the United States, warned that if the overall problem is not alleviated, presidents of the pivotal democratic countries "will be unable to counter the political consequences of debt."

"They will be vulnerable to surges of populism pushing them toward the extreme right or left," Mr. García del Solar said. "In some countries, it could mean a return to military dictatorship."

Economic problems could encourage leftist terrorism and draw governments into the conflict between East and West, he added. In Andean countries such as Colombia, Peru and Bolivia, the ambassador said, "there literally is a danger of the narcotics traffic becoming so important a source of national revenues that entire governments will be corrupted and come under the control of local drug mafias."

NEWS ANALYSIS

But, Mr. García del Solar said: "We are not getting this message across. The bottom line is that the U.S. government doesn't see the debt crisis as affecting the national security of the United States."

His assessment contrasts with the Reagan administration's optimistic view that Latin America is moving toward a new democratic stability.

Latin American officials like Mr. García del Solar are appreciative of U.S. rhetorical support for the spread of democracy. But they warn that Washington, through its actions in Central America and alleged inaction on the debt question, is making cooperation difficult.

Except for President José Napoleón Duarte of El Salvador and President Roberto Suazo Córdova of Honduras, both of whom are fearful of Nicaragua and dependent on the United States for their economic survival, none of Latin America's democratic leaders has supported the main tenets of President Ronald Reagan's policies in Central America.

Latin American leaders' harshest condemnation has been directed at such recent U.S. actions as the economic embargo against Nicaragua. Many of them have echoed Mexico's contention that such moves are "economic coercion" incompatible with Latin American efforts to bring peace to Central America.

Those nations argue that if the bigger countries in the region realized their potential for industrialization and competitive exports, some of the resulting prosperity would spread to the tiny nations that are trouble spots in Central America.

As the smaller countries became more dependent on larger neighbors for their economic well-being, they would be more susceptible to their political influence. Ultimately, that theory concludes, a strong democratic Mexico or Venezuela would be much more effective than U.S.-backed military solutions or embargoes in overcoming the inequities that make Central America a target of subversion.

But those goals cannot be accomplished by countries whose economic houses are in disarray.

Even Mexico and Venezuela, cited by the United States as having made an effort to solve their financial problems, have debts of $96 billion and $35 billion. Many bankers doubt that the two nations will be able to maintain unpopular austerity programs.

Brazil, the world's largest debtor nation with a foreign debt of $100 billion, and Argentina, whose debt is $47 billion, face a constant threat of losing the IMF's financial help because domestic political pressures have forced them out of compliance with the economic austerity programs to which they agreed.

Chile, where a tough military dictatorship is able to ignore public pressure, has taken the steps mandated by the IMF to overcome its debt of almost $20 billion, but its economy continues to worsen because of depressed copper prices.

Peru, with a $14-billion debt, faces such serious economic and political problems that bankers are beginning to question whether it can ever recover. Alan García Pérez, who is to take office as president of Peru on July 28, has threatened to bypass the IMF and seek joint action by the Latin American debtor countries to force a confrontation with their U.S. creditors.

Latin American leaders are smarting over the fact that for the second year in a row, their plea for urgent attention to the debt crisis was ignored in economic summit talks of the West's seven major industrial powers last month.

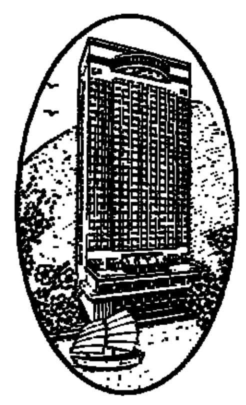
While comprehensive relief appears unlikely, the Latin Americans argue that it is vital that the United States help them with more limited steps. Those include greater access to the U.S. market for their exports; exploration of ways to subsidize the enormous interest on their debt; and efforts to persuade the World Bank to issue guarantees for borrowing from commercial banks, and to loan more money to countries seeking to make major changes in the structure of their economies.

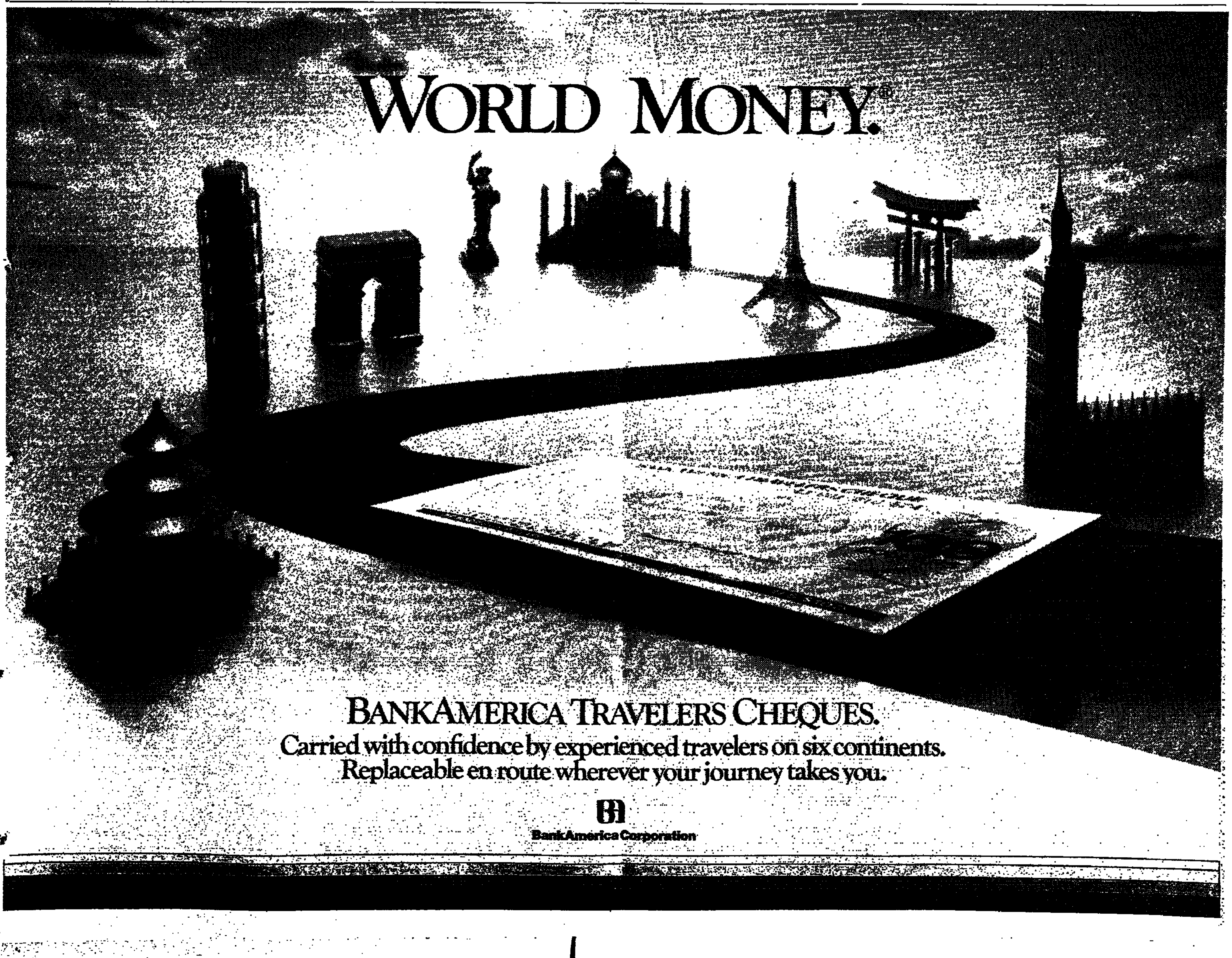
"Otherwise," said Abraham F. Lowenthal, professor of international relations at the University of Southern California, "whatever his intentions and his efforts, Ronald Reagan could go down in history as the president who lost Latin America."

Beijing to Get Golf Courses

The Associated Press

TOKYO — A two-course golf compound, the biggest in China, is to be built in the suburbs of Beijing in a joint Chinese-Japanese venture, the Chinese news agency Xinhua reported Sunday.





Woman Says She Sheltered Mengele in Brazil Home

By Richard House
Washington Post Service

SAO PAULO — Dr. Josef Mengele, the Nazi war criminal, hid in Brazil from 1961 until his death in 1979 and so could not have spent more than two years in Paraguay, according to new testimony by one of the couples who claim to have sheltered him here.

Brazilian federal police released Saturday the transcript of testimony given Friday night by Gitta Stammer, 65, a woman of Hungarian descent who said she and her husband sheltered Dr. Mengele on three small farms in the São Paulo area, before passing him on to an Austrian couple, Wolfram and Liselotte Bossert.

The Austrians are the principal witnesses to Dr. Mengele's presence supposed in Brazil and death in 1979.

The testimony conflicts with much of the postwar history of Dr. Mengele's activities compiled by Nazi hunters.

Mrs. Stammer's account corroborated some details provided earlier by the Bosserts.

Dr. Mengele was known as the "Angel of Death" at the Auschwitz concentration camp in Poland because he would decide which prisoners were sent to the gas chamber and which would be kept alive for his gruesome medical experiments. He is reported to have sent hundreds of thousands of prisoners to their deaths.

The search for Dr. Mengele took on fresh impetus with the May 31 discovery by West German police of letters leading to a grave exhumed Thursday containing remains that Brazilian police believe may be those of Dr. Mengele.

Mrs. Stammer's testimony led São Paulo's federal police chief, Romeu Tuma, to say Saturday that "the evidence is too convincing" that Dr. Mengele lived in Brazil.

Mrs. Stammer testified Friday that in 1961 the couple was introduced to a Swiss citizen known as Peter Hochbichlet, who went to work for them without pay on their farm. By 1962, the man had revealed his identity as that of Dr. Mengele.

He was introduced to them by Wolfgang Gerhard, the Austrian whose identity she said Dr. Mengele later took over, and who allegedly threatened them to remain silent.

She said that Dr. Mengele, whom she called an authoritarian and irascible farm manager who bullied employees and interfered in their family life, made three successive moves with them to small farms close to São Paulo. She said relations with him deteriorated steadily. During this time, he scarcely left the property.

When the Stammers threatened to eject him, they received two conciliatory visits from a man called Hans, who she said came from the Mengele farm equipment factory in West Germany.

She told police that Hans regularly brought large supplies of dollars, but she did not testify if this man was Hans Sedlmeier, the former Mengele company employee in Günzburg, from whose home police found addresses that led them to Brazil.

Mrs. Stammer said that in 1969, the man who identified himself as Dr. Mengele first brought Wolfram Bossert to the farm, and thereafter Mr. Bossert, who worked at a nearby factory, would visit regularly and take Dr. Mengele to stay for the night at his house.

In February 1975, the Stammers, who owned a house at Estrada do Alvarenda, where Dr. Mengele was to be housed, passed him on to the Bosserts. Later, the Bosserts also became owners of the house, and the Stammers rarely saw him again.

Mrs. Stammer said that, after he was confronted with published photographs and his identity uncovered, Dr. Mengele revealed that he had been at Auschwitz, where he had caught typhoid. He avoided talking about the war.

Mrs. Stammer said that one of the man's few pleasures was listening to Mozart and that he was an intelligent and cultivated.

She said that Dr. Mengele told her that soon after World War II he had fled to Italy and then, on a French ship, to Buenos Aires. Afterward he lived near Asunción, Paraguay, and came to Brazil around 1961. He also had spent a short time in Uruguay but never lived there.

She said he had contracted a tropical disease in Paraguay that caused cramps and swelling of one leg. He also had rheumatism and suffered from headaches.

Mrs. Stammer confirmed the account of Dr. Mengele's death by drowning Feb. 7, 1979, at Bertioga.

She identified Dr. Mengele both from portrait photographs taken by Mr. Bossert and from false identity documents in the name of Wolfgang Gerhard.

The testimony led Mr. Tuma, the police chief, to say that he was now certain that Dr. Mengele had lived for years in São Paulo.

Experts from the Medical Legal Institute are expected to take until the end of the month to complete forensic tests. They have turned down offers of help from the United States, West Germany and Israel. Officials of these governments will be allowed only to observe the process.

■ **Wiesenthal Changes Mind**

Simon Wiesenthal, the Nazi hunter and concentration camp survivor, said Friday night in New York that he was now inclined to believe that the body exhumed in Brazil was that of Dr. Mengele, Reuters reported.

Mr. Wiesenthal said that a link with an official of the Mengele family factory in West Germany had caused him to change his mind. Also, he said, "I have not known that the Germans had asked the Brazilian government to look into this case."

On Saturday, the West German prosecutor handling the case said there was now "a certain probability" that Dr. Mengele had lived and perhaps died in São Paulo, but that he was awaiting the results of investigations and tests, The New York Times reported in New York.

The official, Hans-Eberhard Klein, said in a telephone interview that establishing Dr. Mengele's presence in São Paulo and his death there were two separate issues. He said that evidence so far seemed to show that Dr. Mengele had lived there, but that it was too early to verify accounts that he had drowned and been buried at a nearby cemetery.

Suicides, Divorces Decrease in Japan

United Press International

TOKYO — More than 24,000 people committed suicide in Japan last year, slightly below the record level set in 1983, government statistics show.

The new figures also showed that the Japanese divorce rate fell for the first time in 20 years. The numbers, released Saturday by the Ministry of Health and Welfare, also showed that cancer was the No. 1 fatal disease in the country, followed by strokes and heart problems.

Suicides decreased slightly in 1984, but still accounted for 3.3 percent of the 742,155 deaths in the country. A total of 24,334 people killed themselves, a drop of 651 from the high recorded in 1983.

The Associated Press

ISLAND-HOPPING — One of the longest suspension bridges in the world opened Saturday between the Japanese islands of Shikoku and Awaji. The Onaruto Bridge, which took nine years to build and cost $400 million, is 1,770 yards long. By comparison, the Golden Gate Bridge in San Francisco is 1,392 yards long.

Judges Cut Repayment For Meese Attorneys

By Howard Kurtz
Washington Post Service

WASHINGTON — A panel of three federal judges has awarded $472,190 to Attorney General Edwin Meese 3d for legal fees he incurred while under investigation by a special prosecutor. His lawyers had requested $720,824.

The judges, from the U.S. Court of Appeals for the District of Columbia, said Friday that Mr. Meese's lawyers could not be reimbursed for, among other things, the time they spent dealing with the media. The principal attorneys, Leonard Garment and E. Bob Wallach, have estimated that they spent 10 to 15 percent of their time responding to allegations against Mr. Meese in the press.

Under the Ethics in Government Act, a federal official who comes under such an investigation but is cleared later is entitled to petition the government for reimbursement of expenses.

The prosecutor, Jacob A. Stein, concluded last September that no basis existed for prosecuting Mr. Meese for a variety of allegations. These included charges that he had failed to properly disclose a $15,000 interest-free loan to his wife, Ursula, from a family friend and that he had played a role in obtaining federal jobs for persons who had assisted him financially.

Mr. Garment issued a one-sentence statement calling the court decision "thoughtful and fair." The appellate panel ruled that his Washington law firm, Dickstein, Shapiro & Moran, would receive $357,515 in fees and $37,805 in expenses. The firm had asked for $533,327 in fees and $45,034 in expenses.

The judges awarded $76,870 in legal fees to Mr. Wallach, a little more than half the $142,562 that the San Francisco lawyer had requested. In a reference to Mr. Wallach, the judicial panel cited "the failure of one counsel to keep contemporaneous records of time spent."

2.3 Million U.S. Jobs Lost in Manufacturing

By Kenneth B. Noble
New York Times Service

WASHINGTON — The Labor Department has provided its first detailed look at how far the U.S. economy has shifted away from manufacturing jobs since the recession of the early 1980s.

The study released Friday by the Bureau of Labor Statistics showed what experts said was a restructuring of the job market. Since January 1980, the report said, 2.3 million manufacturing jobs have disappeared. In the same period, the department has said, jobs that supply services rather than products have boomed.

The study was requested by members of Congress concerned about a lack of data on the cost in manufacturing jobs from the shift toward services, a shift that has been documented since the economic recovery by private experts.

It describes a turbulent labor market in which hundreds of thousands of workers have lost manufacturing jobs.

Some displaced workers in such highly paid industries as steel and automobiles eventually find jobs as executives, professionals and technicians and in other skilled jobs, the study suggested. But it indicated that many others would find themselves in lower-paying service jobs and that many more might still be seeking employment in industries where *jobs might never return.*

"Probably 90 percent of those jobs will never come back — they're gone for good," said Jay N. Woodworth, a senior economist for the Bankers Trust Co. in New York City.

This trend has profound importance to U.S. workers, said Janet L. Norwood, commissioner of labor statistics, reporting on the study Friday before the Joint Economic Committee of Congress.

"There is a clear restructuring going on in this country," she said.

The study said that 35 states and the District of Columbia had not recovered the manufacturing jobs lost in the 1980-82 recession.

"High-tech industries are generally doing well," Mrs. Norwood said, but they are only "a small proportion in terms of the workers who are involved."

She noted that "the health of individual industries" could not be assessed solely from employment data.

"It's clear," she said, "that the data that we have been discussing show that the economy is developing along two paths. One path, the service-producing one, is growing, and growing fast. And there are lots of jobs.

"The other path, she said, "is the goods-producing sector," which "has been in trouble for a long time."

Employment experts say the movement of large numbers of jobs and workers from manufacturing to services indicates profound economic changes.

Intense debate has resulted over such questions as whether a loss of relatively high-paying jobs in manufacturing will result in a smaller middle class and about the effects of deindustrialization on the work force.

Mr. Woodworth said the Labor Department figures showed that "we're making a transition as a country into the wildly fantasized post-industrial society."

"Of course, for workers, for some companies and the communities where there has been an instantaneous loss of some of these jobs, it's a traumatic experience," he said. "But more times than not, almost everybody comes out a net winner, as people make the transition to higher levels of job skills."

India Turns Down Interim Aid Offer By Union Carbide

Reuters

NEW YORK — India has turned down an offer of $5 million in emergency aid from Union Carbide Corp. for the victims of the gas leak in Bhopal, India, attorneys for the Indian government said.

The attorneys told a judge in U.S. District Court in New York on Friday that the government felt that detailed conditions in the current plan for distributing the money were too burdensome. They included giving the court the names of all the injured and their present conditions, as well as an accounting of how the money was spent.

In response to the Indian government's action, Judge John F. Keenan asked the American Red Cross to devise an alternative plan for distributing the *interim relief* funds.

An estimated 2,000 people died last December when methyl isocyanate leaked from the Bhopal plant, which is owned by a local subsidiary of the U.S. company.

UPI Says 2 Companies Have Offered to Buy It

Washington Post Service

WASHINGTON — The managers of United Press International have announced that they are holding discussions with eight companies about its possible sale and that they have received preliminary offers from two of them.

They also told the news agency's creditors Friday that the company had registered a $400,000 profit in the six weeks since it filed for Chapter 11 bankruptcy protection, and they predicted that the profit for the year could reach $2 million or $3 million — UPI's first profitable year in more than two decades.

Sorkin, 69, A Violinist, Dies in U.S.

United Press International

MILWAUKEE — Leonard Sorkin, 69, a classical violinist, died Friday of cancer.

Mr. Sorkin was a founder of the Fine Arts Quartet, director of the University of Wisconsin-Milwaukee Institute of Chamber Music and conductor of the Institute's orchestra.

He was born in Chicago on Jan. 12, 1916. Mr. Sorkin studied with Mischa Mischakoff and joined the Chicago Symphony at age 18 and remained with it until 1943.

In 1946, he and George Sopkin, the principal cellist with the ABC Symphony, founded the Fine Arts quartet. Mr. Sorkin was professor of violin and artist-in-residence at the University of Wisconsin-Milwaukee from 1963 until his death.

Vladimir Jankelevitch, 81, Philosopher and Professor

PARIS (AP) — Vladimir Jankelevitch, 81, philosopher, student of Henri Bergson, defender of human rights and professor at the Sorbonne, died Thursday, his family announced.

He was born Aug. 31, 1903, in Bourges, the son of Russian Jews who had immigrated to France. Mr. Jankelevitch was above all suspicious of all formal systems of thought — Marxism, existentialism, structuralism — and was skeptical about man's ability to find the truth.

■ *Other Deaths:*

Matsutaro Kawaguchi, 85, one of Japan's most popular novelists, of pneumonia in Tokyo on Sunday.

Joseph Walding, 58, New Zealand's high commissioner, or ambassador, to Britain, Tuesday at hospital in London after collapsing.

Mark Hannaford, 60, a former Long Beach-area Democratic congressman from California who sponsored energy legislation during the oil crises of the 1970s, of lung cancer in Lakewood, California.

Major General William W. Davies, 85, a retired U.S. Marine Corps officer who was credited with developing amphibious assault tactics and equipment used against the Japanese during World War II, June 1 in San Diego.

Max Ways, 79, a former editor at Time and Fortune magazines, Tuesday in New York of a heart attack.

Italian Vote Seen As Important Test

By E.J. Dionne Jr.
New York Times Service

ROME — By some accounts, it is little more than a trivial issue, involving the equivalent of 50 cents a day for the average worker.

But the referendum Sunday and Monday on Italy's system of wage indexing has become a major political test for the government and for the Communist opposition, led by Alessandro Natta, the party's secretary. Prime Minister Bettino Craxi went so far as to announce that he would resign in "one minute" if his side lost.

The fight is over the Craxi government's policy to cut back on automatic wage increases that Italian workers get under what is known as the *scala mobile*, or "moving staircase."

Voters are being asked to vote "yes" or "no" on a Communist proposal to restore four points cut from the scale by the Socialist-led and Christian Democratic-dominated government.

In effect, workers are being asked to vote themselves a pay raise, something the Communists once thought would be an offer the voters could not refuse. For the Communists, it is a matter of social justice and preventing the fight against inflation from being an excessive burden on the average worker.

For Mr. Craxi and his five-party coalition, however, a victory for the Communist proposal would overturn what they contend is a successful economic policy. Cutting back on the automatic wage increases has helped trim inflation to 9 percent from 12 percent. In addition, foreign investment is up, and despite some recent pessimistic figures, Italy's economy has been growing at a relatively healthy rate over the past year.

The sums involved in the voting can look either trivial or large, depending on how they are calculated.

For the average Italian worker, the amount in question is about 27,000 lire (nearly $14) a month. Enough to buy a cup of coffee a day, commented the Rome daily newspaper Il Messaggero.

But the General Confederation of Italian Industry, the employers' association known as Confindustria, contends that a vote to restore the amount would increase overall annual labor costs by about $4 billion. The employers would like, if anything, to cut back even further on the wage escalator. Thus, they helped scuttle a compromise that Gianni De Michelis, the minister of labor, tried to arrange to avoid the referendum entirely.

Like Mr. Craxi, Mr. De Michelis is a Socialist, and the fight over the Communists' proposal has become more of a political battle than an economic one.

Mr. Craxi's government will be in power two years in August, and he is one of Italy's longest-serving postwar prime ministers. His government straddles the center of the political spectrum, including the long-dominant Christian Democrats, the largest party in the coalition, his own Socialists, the Social Democrats, the Liberals and the Republicans.


AP
Alessandro Natta

Initially, the referendum was part of a two-step Communist strategy to try to topple the government and force a political crisis that might bring the Communists a share of power.

The hope was based on the Communists' showing in the elections for the European Parliament last year, when they became, briefly, Italy's most popular party, overtaking the Christian Democrats.

But the strategy failed in its first real test last month, when the Communists lost ground in nationwide local elections. The Christian Democrats came in first again, getting 35 percent of the vote to the Communists' 30 percent. The Socialists gained, as did the Republicans, all adding up to a solid 58-percent majority for the five-party coalition.

The Communists now hope for a referendum victory, but the government parties have been campaigning as a solid bloc for a "no" vote, and appear confident that their majority will hold up again.

Agca's Antics: Pressure on Judge and Legal System

By Michael Dobbs
Washington Post Service

ROME — There were times Friday, during the most dramatic session yet in the two-week-old conspiracy trial in the 1981 attack on Pope John Paul II, when it seemed as if Mehmet Ali Agca, the pope's assailant, was playing with the judges like a cat with a mouse.

Tantalizing details about his past career as a terrorist were interlaced with seemingly insane rantings about being Jesus Christ and sweeping charges that his life was threatened by the Soviet and Bulgarian secret services.

Mr. Agca's erratic behavior has created enormous legal and moral problems for Judge Severino Santiapichi, one of Italy's most respected judges, who is ultimately responsible for deciding whether there was a "Bulgarian connection" in the attack on the pope.

In effect, the Italian state's case against three accused Bulgarians rests on the pretrial testimony of a self-acknowledged perjurer who is now refusing to cooperate with the court.

Throughout the session, Mr. Agca refused to give any evidence about the three Bulgarian officials whom he has named as his accomplices in the plot to shoot the pope.

Apart from Mr. Agca, no witness has been found to confirm any of the numerous meetings that are alleged to have taken place in Italy and in Bulgaria between the Turkish gunman and the three Bulgarian officials on trial in Rome.

Nor has there been any trace of the $1.2 million that Mr. Agca says he and his Turkish accomplices were paid by Bulgaria to kill the pope.

Among Judge Santiapichi's concerns are the damage that could be done to the reputation of the Italian justice system if the state's case collapses. The three-year investigation into Mr. Agca's claims of Soviet bloc involvement attracted intense media attention around the world and, at one point, it appeared it would cause damage to the future of East-West relations.

NEWS ANALYSIS

Unease about the case surfaced in Italian press commentaries Saturday. A columnist for La Stampa, the respected Turin daily, described Mr. Agca as "a person without scruples" who was trying to "ridicule the justice system of our country in the eyes of the entire world."

Roberto Martinelli, the columnist, commented: "It is not easy now for our justice system to redirect a trial that has been so polluted and to restore credibility and authority to it. If the possibility of recovery exists, it is not through Agca. The pope's assailant has shown that he cannot lead the judges toward the truth."

In public comments Friday, Judge Santiapichi referred several times to his responsibility for seeing that the trial was conducted in a proper manner. When Mr. Agca announced, "Bulgaria is guilty," he was admonished by Judge Santiapichi, who said, "We are not judging countries, we are judging individual people."

At another point, after spectators in the courtroom burst out laughing at Mr. Agca's antics, the judge remarked: "There's not much to laugh about but there is something to cry about."

Under the Italian legal system, a judge has broad powers. In addition to acting as an impartial arbiter, he conducts the interrogations of defendants and witnesses and plays a dominant role in the jury's consideration of a verdict.

It is now up to Judge Santiapichi to decide how to deal with Mr. Agca when the trial resumes Tuesday. He outlined one possible approach Friday when he asked the papal assailant if he were prepared to answer questions about three Turkish rightists who are also defendants in the case: Oral Celik, Musa Serdar Celebi and Omer Bagci.

In reply, Mr. Agca said he would have to consult his lawyer.

Complicating the judge's task is that Mr. Agca is legally a co-defendant and not a witness. This status that allows him to conduct his defense as he wishes and puts him under no obligation to give testimony. Originally convicted in July 1981 of attempting to murder the pope, Mr. Agca is now being tried for the lesser charge of smuggling a weapon into Italy.

Italian legal experts believe that the trial could continue even without the cooperation of Mr. Agca, with the court interrogating its list of more than 100 witnesses. The case against the Turkish accused is less dependent on Mr. Agca's testimony than is the case against the Bulgarians because there are independent witnesses to describe the relations between Mr. Agca and the Turks.

It is also possible that Mr. Agca, whose behavior under interrogation has been unpredictable, could change tack again and decide to give evidence against the Bulgarians. It would then be up to the court to decide whether his credibility has been irrevocably jeopardized by the contradictions in his testimony.

On Friday, Prosecutor Antonio Marini insisted that Mr. Agca's pretrial testimony against the Bulgarians could be considered part of the court record.

The court's treatment of Mr. Agca was criticized as "extraordinarily tolerant" by a Bulgarian magistrate, Jordan Ormankov, who is an observer at the trial.

Frequently during Friday's session, Mr. Agca glanced around at the defense lawyers and spectators to catch their reaction. He has clearly enjoyed the limelight and occasionally speaks directly to the television cameras rather than to the judges.

Urged by American television crews to, "say something to us in English, Ali," Mr. Agca responded with a ritual, "I am Jesus Christ."

Pravda Says U.S. Wants to Wreck SALT-2

The Associated Press

MOSCOW — Pravda called U.S. arms control policy "deceitful and cynical" in an editorial Sunday and said that the Reagan administration was "getting ready to wreck" the 1979 nuclear arms treaty.

The Communist Party daily newspaper renewed Soviet accusations that the United States wanted to avoid agreements limiting nuclear weapons.

"The present-day U.S. administration is the only U.S. government in quite a number of years which deliberately refuses to seek with the Soviet Union mutually acceptable accords in the field of security," Pravda said.

"Now it is about to go even further in pursuit of its dangerous militarist line," it said.

The editorial was referring to discussions in Washington about whether to continue to observe the terms of the second strategic arms limitation treaty, known as SALT-2.

The accord was never ratified by the United States, but both superpowers have agreed to observe its provisions as long as neither side violates them.

Mr. Reagan was to submit a report to Congress on Monday on the status of the unratified treaty.

Sources in the administration told The Washington Post on Friday that he would announce that the United States would continue to comply with the treaty while leaving the door open for "appropriate responses" to Soviet violations.

Leading officials within the Reagan administration have been split on the question of the treaty, with hard-liners such as Defense Secretary Caspar W. Weinberger urging the president to drop the accord because of Soviet violations.

A decision on SALT-2 is being forced by the addition of a Trident missile-firing submarine this fall, which would put the United States over the treaty limit unless older weapons were retired.

Pravda charged that Washington "is getting ready to wreck the SALT-2 treaty, which has up to now served as a threshold containing the escalation of rivalry in strategic armaments."

"The U.S. leadership is treading a dangerous path. And it should be clear to it that if the U.S. administration steps over that threshold, it will incur grave responsibility for all the consequences of this step."

Pravda accused the Reagan administration of using concerns about verification provisions to avoid reaching agreements on arms controls. "It is a deceitful and cynical stand," the newspaper said.

[On Saturday, the official Soviet press agency, Tass, said that Washington would abrogate the treaty in full or "step by step," United Press International reported. Tass said that by discussing the status of the treaty, Washington was "destroying the false front it has built to camouflage its politics."

["The only point at issue is what method of scrapping the treaty would be less painful to the U.S.A. from the point of view of world public reaction," Tass said. "Whether the commitments assumed by the U.S.A. under the treaty should be abrogated openly and in full or whether this should be done creepingly, step by step."]

Efficiency Drive Lagging in Soviet

Reuters

MOSCOW — The drive by the Soviet leader, Mikhail S. Gorbachev, to make Soviet industry more efficient has not yet produced results, and figures for the first few months of this year are poor, according to a Moscow newspaper.

The daily Sotsialisticheskaya Industriya said that it appeared that many workers and factory managers had failed to realize what was expected of them. "Far from all enterprises and sectors have made a decisive turn to intensive methods of management," the newspaper said Saturday.

The paper singled out for criticism the coal, oil and chemical industries, all of which it said had failed to perform as well as expected in the first four months of 1985.

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

Americans and Apartheid

The urge to punish South Africa for apartheid is now palpable throughout the United States. Americans want to destroy this abhorrent structure of racism or disown its sponsors' claimed kinship with Western culture. Most Americans want to do business with South Africa only to the extent that this can undermine the Afrikaners' hateful doctrines.

It is the job of a president to give voice and shape to such a mood. President Reagan has failed to do so — whether or not he has been betrayed by the Afrikaners he tried to befriend. That makes it not only right but necessary for Congress to fill the void, as it is now doing with admirable discretion.

Two concerns have impeded America's assaults on apartheid. One is that strong sanctions might hurt South Africa's blacks more than their oppressors. The other is the administration's view that sanctions would harden the white regime without really hurting it.

Yet the president's alternative of "constructive engagement" has come up empty. The Afrikaners' only concessions are attributable either to the threat of foreign sanctions or to internal economic necessity. And none of the concessions move nearer to granting the black majority a political voice.

As violence spreads, the administration has become the Afrikaners' apologist, exaggerating their concessions and minimizing their brutalities. American policy has not even ended South Africa's illegal occupation of South-West Africa, or Namibia, which was to have been Mr. Reagan's diplomatic prize for relaxing the pressure imposed in the Carter years.

Americans have therefore been struggling, incoherently, to create their own diplomacies, mostly demanding that state and city governments, universities and pension funds sell off the stocks of companies operating in South Africa. But this has left America's largest corporations confused about the goal: Are they expected to work harder against apartheid in South Africa, as some have tried, or to abandon all profit from such an abhorrent system?

Local politicians and corporate directors are poorly placed to make this critical choice. Given the president's default, it is left to Congress to define a new national policy. The measures before it threaten a gradual withdrawal of business from South Africa, but they also set standards for relief and show due regard for the welfare of South Africa's blacks.

The threat of disinvestment may be more potent than the fact. The 300 American companies in South Africa can perhaps advance the careers of their 70,000 black employees. And though blacks generally share inadequately in South African prosperity, economic growth tends to enlarge the whites' dependence on them. But if forced to leave, American companies would be mostly replaced by investors from other countries, who are likely to be indifferent to apartheid.

American disinvestment, in sum, would not greatly damage South Africa's economy. That insight gave rise in 1977 to the Sullivan principles, a code of obligations to blacks by which 200 American companies justify staying there. But even the Reverend Leon Sullivan, the code's author, now despairs of the pace of change. He favors a law to make the code mandatory, with a total embargo to follow in two years if apartheid still stands.

Congress is moving slowly in the same direction. The House of Representatives has voted to ban new loans and new investments, but would let existing investments stand. It would also prohibit importing gold coins from South Africa and exporting computers to its government. It would delay these sanctions if specified apartheid measures were repealed. The Senate Foreign Relations Committee proposes enacting the Sullivan code plus lesser sanctions, combined with a warning of a ban on new investment in 18 months.

That such sanctions may not have great economic impact does not make them worthless. On the contrary, they would deliver psychological and moral blows against the Afrikaners without great damage to the economy on which blacks, too, depend. As the Afrikaners show with their energetic lobbying against sanctions, what they dread most is ostracism from the community of Western nations.

The indicated House-Senate compromise on sanctions would serve notice that Americans no longer accept the apologias and pieties called "constructive engagement." If South Africa's rulers want to regain their standing in the culture led by Americans, they will heed this plea for gradual but real progress. If such earnest yet modest pressure fails to move them, the chances are that nothing ever will.

— *THE NEW YORK TIMES.*

Keeping a Nation's Secrets

Before World War II, the great object of espionage was war plans: to find out whether or how a prospective enemy intended to attack. During the war, the focus necessarily shifted to codes and orders of battle, matters that could affect the course of the struggle. After the war, the urgency of the question of nuclear war or blackmail produced a new priority: the secrets related to the making and deploying of nuclear weapons. The backwardness of Soviet science gave the Kremlin an extra incentive to pursue this mission, even as the openness of American society gave it an extra opportunity. In fact, the Soviet effort to steal nuclear secrets began when the two countries were wartime allies. The Walker case is the latest evident sign of it.

The nagging question remains: how to keep the secrets. There can be no single set of answers. The beginning of one set, however, is to recognize with whom the United States is dealing: not with highly educated, politicized elite figures of the sort familiar from British fiction and reality, and not with professional master spies of the Rudolph Abel mold, but with, essentially, ordinary servicemen and national security workers. High-technology defense creates a requirement for large numbers of them to write the programs, keep the logs, change the codes. There may be no better way to ensure their loyalty than the gritty and, yes, often intrusive attention to individual performance and vulnerability that is the classic routine — though it cannot be performed routinely — of counterintelligence.

But whether this vital work can be conducted with even minimal effectiveness in the existing bureaucratic circumstances is uncertain. The one useful result of the Walker case may turn out to be to propel review of a hopelessly overgrown and encumbered security system, one that seems to distinguish poorly between necessary and less necessary secrets and among the different techniques needed to guard different kinds of secrets.

The overall problem has to be broken down into parts. High technology, for instance, at once manufactures and dissolves secrets: the same interchange necessary to develop and apply them exposes them to being lost. Surely, however, the joints at which leaks are likeliest can be better sealed. Reducing and rationalizing the kinds of secrets to be kept and the numbers of people with access to them should not be beyond the wit of humankind.

Meanwhile, the law must be vigorously enforced against those caught in its coils. If personal gain is a motive for breaking security, personal loss should be confirmed as a price.

— *THE WASHINGTON POST.*

Other Opinion

Pressuring the Sandinists

Many Americans who once doubted the prudence of military aid to the democratic resistance in Nicaragua have since been disgusted by the policies of the Sandinists.

That tide of opinion turned on the Sandinists because they rejected a reasonable offer to talk. Their refusal reinforces the theory that only pressure has led to changes in the policies of the Sandinists. They could, of course, prove that theory wrong and initiate talks without seeming to be forced into them. That is what many would have them do. However, this stalemate is no excuse for avoiding the challenge of making peace. President Reagan has accepted the challenge. He has asked Congress to give him the flexibility that can lead to a negotiated peace in Nicaragua. As he has said: This is not a call for the overthrow of the Sandinists; it is a call for democracy.

— *Langhorne A. Motley, former U.S. assistant secretary of state for inter-American affairs, in the Los Angeles Times.*

Sanctions Won't End Apartheid

Considering how long it took the United States to do justice to its own negroes, one might expect that country to be understanding about South Africa's slow progress. The problem for South Africa is incomparably more complex than ever it was in the United States. Congress should consider how it would have reacted if foreign countries had sought to apply sanctions back when U.S. practices — lynching, etc. — shocked Europe's conscience.

— *The Sunday Telegraph (London).*

FROM OUR JUNE 10 PAGES, 75 AND 50 YEARS AGO

1910: Is Diaz Buying U.S. Influence?

WASHINGTON — Appearing before a committee of the House of Representatives are two authors of works on Mexico who have brought serious charges against President Porfirio Diaz and a number of American concessionaires. Mr. J.K. Turner charges President Diaz with granting concessions in Mexico to the value of $900,000,000 to American financiers in return for their influence at Washington for the purpose of keeping him in power. Señor Guiterez de Lara, a Mexican author, supports this. The two authors declare that they have proof that President Diaz has greatly abused his position by persecuting his political enemies. The House committee is considering the creation of a committee to probe the scandal.

1935: Greek Voters Snub Royalists

ATHENS — First returns in the elections in Greece [on June 6] for the choice of members of the National Assembly to revise the Constitution indicate that the Royalists have sustained a serious check. The vote in Athens and other cities indicates that abstentions were numerous and this, with the poor showing of the list headed by General John Metaxas, partisans of a restoration, is taken to indicate that Greek opinion is much divided on the question of a change of régime. With the Republican parties abstaining, the struggle was between the Popular Party, led by Premier Panayoti Tsaldaris and General George Kondylis, the war minister, on the one hand, and the Royalist Union of Metaxas, on the other.

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Nicaragua 'Backs Into' Its Neighbors

By Richard Cohen

WASHINGTON — In the old joke, a Catholic priest is driving along when he smashes into the car in front of him. A stereotypical Irish cop comes along, looks at the damage and says to the priest, "Father, how fast was he going when he backed into you?"

From the White House comes a bellicose condemnation of Nicaragua for what amounts to "backing into" both Honduras and Costa Rica. Larry Speakes, his master's voice, went into his moral-outrage mode after Sandinist troops reportedly crossed into both countries:

"The United States," he said, "strongly condemns these actions and calls upon the government of Nicaragua to halt immediately any further action against its neighbors."

Mr. Speakes did not mention that for some years Honduras has been used as a staging area for the "contras," who have repeatedly entered Nicaragua, killed troops and civilians, blown up installations and created as much mayhem as possible — and then retreated to their haven in Honduras. It was only a matter of time until the Nicaraguans would go into Honduras. This is what former Secretary of State Alexander Haig used to call "going to the source."

Costa Rica, too, has sheltered anti-Sandinist rebels. The country has been the prime base for guerrillas under Edén Pastora, the former Commander Zero, whose ties to the CIA are more tenuous than those of the Honduras-based contras. What is not clear is whether the government of Costa Rica, a democracy with no regular army, can control guerrillas operating within its borders.

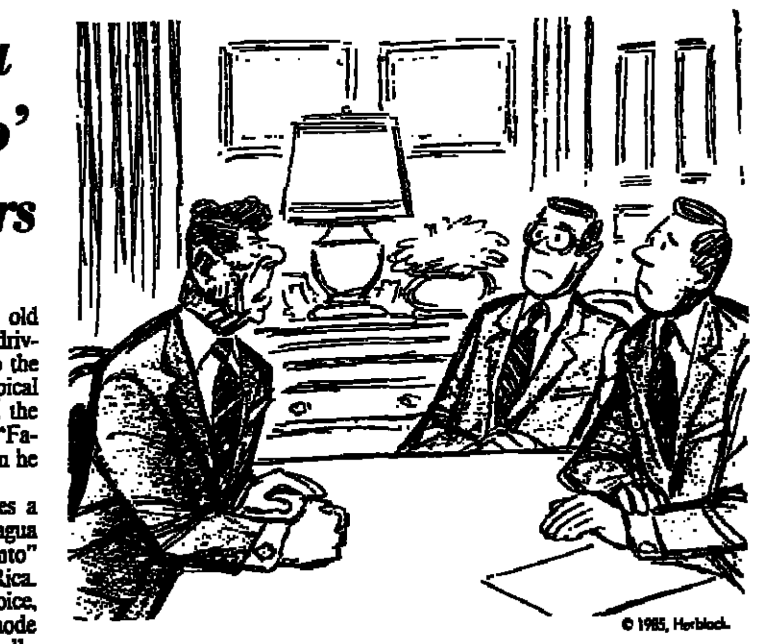
In legal terms, what is going on is entrapment. The Reagan administration supports contras who use Costa Rica and Honduras to stage raids into Nicaragua, and then it cries foul when the Sandinists give chase. This is precisely what the United States did when Mexicans such as Pancho Villa had the effrontery to raid Texas border settlements. President Woodrow Wilson sent General John Pershing into Mexico.

Nicaragua's Sandinist leadership seems convinced that there is nothing it can do short of suicide to please the Reagan administration and so it ought to just do what it wants to protect its own country. It seems equally convinced that the United States with its own troops will someday invade Nicaragua. A Reagan administration military buildup in Central America — seven airfields in Honduras alone — has left the United States as ready as it ever will be to launch an invasion and, within certain limits, to ensure its success.

The Sandinist reading of the situation may or may not be accurate. In Washington no one seems sure. House Speaker Thomas P. O'Neill is on record as saying that Ronald Reagan is determined to invade. Others say Mr. Reagan is playing a huge bluff, that he is making the Sandinists nervous, increasing pressure on them, causing internal discontent and — atypically for a U.S. president — taking the long view and playing things out slowly. In time, with a little help from its enemies, the Sandinist regime will collapse.

Maybe. But history teaches that events have a way of getting out of control. If so, the Washington debate about the president's intentions may be moot. Already the United States has reaffirmed its Rio Pact commitment to Honduras and assured that the country would be defended by the United States if attacked. Washington has so rattled the cage of the Sandinist leaders that they may conclude that if they are going to go eventually, they might as well go on their own terms. To exhume a word from a previous era, things have a tendency to "escalate."

Washington Post Writers Group.



'I want more democracy in Nicaragua and I don't want the opinions of those darn representatives in Congress.'

Aid to the 'Contras': A CIA War Will Fail

By McGeorge Bundy

NEW YORK — President Reagan has won the Senate's support for a renewal of "nonmilitary" aid, through the Central Intelligence Agency, to the Nicaraguan "contras." No one should be deceived by the word "nonmilitary." If the House should agree, this money will be used to pay for everything short of weapons and bullets, and the rest of the needed funds will be sought in other places it would be embarrassing to explore. The Senate has voted for continued war by the CIA against the Nicaraguan government. The House should reverse this vote, on the simple and fundamental ground that this "covert" operation will not work.

I speak as someone with direct exposure to the ineffectiveness of covert operations. For five years in the Kennedy and Johnson administrations, I was chairman of the committee of the executive branch charged with approving or disapproving them. In 1961, I listened with a beginner's credulity to the arguments of the eager operatives who promoted what became the Bay of Pigs, and I did not know enough to ask the other side of the CIA — the "estimators" — for their judgment. Through the next two years and more, I watched with increasing skepticism as the Kennedy administration kept the pressure on the CIA for more and better — if smaller — covert operations.

I think that eventually I played a small part — his own learning from experience was much more important — in President Kennedy's growing recognition that covert action simply did not work and caused more trouble than it was worth. It is just plain wrong for President Reagan to suggest, as he has repeatedly, that President Kennedy's opposition to Cuban adventurism, which was indeed strong, would translate today into support for covert operations.

The dismal historical record of covert military and paramilitary operations over the last 25 years is entirely clear. Characteristically, the exiles who are willing to accept money and direction from the CIA are not as a group the most dedicated democrats. Characteristically, CIA recruiters prefer military professionals to enthusiastic amateurs, but such professionals, especially the graduates of repressive armies, do not ordinarily have great skill in guerrilla operations. Characteristically, CIA officials under pressure for results are driven to increasingly harebrained schemes, and not all of them are honestly and fully explained to superiors or to Congress.

Characteristically, moreover, revolutionary governments under this kind of attack give the highest priority to defeating it. The existence of the anti-government forces becomes a powerful incentive to increased militarization and domestic repression.

My judgment about the contras is entirely independent of any certain conclusion about whether the Nicaraguan regime is irrevocably committed to the establishment of a totalitarian Marxist-Leninist regime and the export of violent revolution. What I do know is that covert action, without more, makes the worst result more, not less, likely. The very existence of the contras plays into the hands of the hardest of the hardliners in a government about which we have good reason to be wary.

There is one other lesson from history. Repeatedly, covert operations have been the consequence of a belief that no better instrument is available. This way of thinking is deeply wrong.

Let us consider the two basic possibilities for the Nicaraguan government. It may well persist in an increasingly Marxist-Leninist course, with increasing reliance on Soviet and Cuban aid and an increasing commitment to the export of violent revolution. If that is the chosen course, the United States will have a deep national interest in taking fully effective means to reverse it.

In my view, the most effective means, for the Caribbean area, was defined by the U.S. experience in the Cuban missile crisis. It is U.S. control of the seas that can defeat and reverse any such Nicaraguan choice. What Americans would require for the use of their sea power is regional support, which would in turn require a clarity of expression and purpose we have not had from this administration.

President Reagan seeks to frighten Americans with the specter of 100 million enslaved by Moscow and of refugees assaulting the nation's borders by the tens of millions. If the situation were this dangerous, surely we would be more likely to prevent it with naval forces than with a group of fighters open to purchase by the CIA.

Now consider the other possibility: that there is no inevitability in the future course of the Nicaraguan government, that it may come to accept pluralism in its own country and respect the rights of its neighbors, that it can back away from the slippery slope of increasing dependence on Havana and Moscow. Let us suppose also that Nicaragua's neighbors, in the region and the Contadora group, can exert their own substantial influence in this direction. Is there not advantage in leaving this road open rather than building roadblocks?

I do not have a crystal ball to tell me which way the Sandinists will move. We must be prepared to make continuing judgments on their course, and we will be helped if we use diplomacy much more seriously.

This covert enterprise, by itself, is doomed to failure. It will not bring the Sandinists to President Reagan's feet. It will confirm and not undermine their Marxist-Leninist leanings. It will not fulfill the hopes of the democrats among the contras. It will shed blood on all sides, and it will intensify polarization among Nicaraguans. It will discredit the American government among its friends. It will make constructive change in Nicaragua less likely, and regional support for any necessary stronger course harder to obtain. It will do great harm, and it simply will not work.

The writer, a professor of history at New York University, served as national security adviser to Presidents Kennedy and Johnson. He contributed this view to The New York Times.

Mixed Signs for an Improvement of U.S.-Indian Ties

By Narendra Singh

LAUSANNE, Switzerland — When Prime Minister Jawaharlal Nehru first visited Washington in 1949, great expectations were raised in American economic and political circles for close ties. Had not Roosevelt urged Churchill to accept Indian demands for freedom? When Mr. Nehru reacted rather coolly, the Truman administration's attitude toward India stiffened.

Hopes were raised when John F. Kennedy invited Mr. Nehru. Disappointment and a certain estrangement followed their 1961 summit.

But Prime Minister Indira Gandhi's meetings with Richard Nixon and later Ronald Reagan raised few expectations, and some good can be said to have come from them. Henry Kissinger has recorded how disagreeable Mr. Nixon found her. He also recorded his impression that the lady was not one to be browbeaten by the Russians.

Prime Minister Rajiv Gandhi represents a different generation of Indians. They are more confident and more pragmatic. They have been trying to breathe fresh air into the Indian political scene. Change has also come in Washington: A lot of water has flowed down the Potomac since the Kennedy years.

Here are some points that seem to me to favor improved U.S.-Indian relations today — and other points that augur less well.

- India is now less dependent on U.S. economic aid and totally independent of food aid. Complexes generated by the donor-recipient relationship are less evident.
- There is now less suspicion in the United States that India's economic policy could one day take that large country into the Communist camp. The shift since the 1970s in Indian economic thinking — toward greater participation of the private sector and more liberalism — is gaining momentum under the new government and may be becoming irreversible. Leaders and administrators who came under the spell of Fabianism in the 1920s and '30s have well nigh disappeared. The deepening of the democratic process has increased the influence of the masses on policy. Voters want results tomorrow, not at some distant date set by ideologues.
- There is perhaps less touchiness on the Indian side in dealing with the Americans. This has come with the disappearance of Indian leaders and administrators educated in Britain before the war. Those Indians had imbibed the fashionable English prejudices of the time against the Americans, without understanding that these stemmed partly from jealousy.
- With the breakaway of Bangladesh from Pakistan, the latter became too small to be equated with India. An American effort to balance India with Pakistan was the original cause of Indian alienation from the United States. The Reagan administration's greater prudence in dealing with China has not gone unnoticed.

Rajiv Gandhi represents a new generation of Indians. Change has come in Washington, too.

- India's performance in the economic and political fields — in spite of continuing grave problems — has been better than was expected in the United States a quarter century ago. Present-day India's growing capacity and confidence make it a far more worthwhile partner.

Working against closer ties are these factors:

- The United States will have to convince Mr. Gandhi that it is willing to cooperate to curb the activities of Sikh extremists who operate from the United States. The Indian public is more concerned about this issue at the moment than almost any other.
- Misunderstandings can arise from the very economic reforms that have been applauded in the United States. India is bound to move cautiously in carrying out any major shifts because these must be based on a wide consensus. American businessmen may be disappointed to find that India is unwilling to open the door to foreign goods and capital, except in areas of high technology and export-oriented industries.
- If Mr. Gandhi is entirely to be judged by the amount of pressure he is willing to apply on the Soviet Union over Afghanistan, Indian opinion is bound to feel that President Reagan is not so much interested in bilateral accommodation as in playing the global game. People in India ask why those desiring shifts do not first work to improve India's security environment, which a fair Chinese-Indian border agreement would certainly promote. A stringent U.S. policy to isolate the Soviet Union would pose continuing problems for U.S.-Indian relations.
- Then there is danger from renewed U.S. entanglement with Pakistan. The supply of long-range sophisticated aircraft and radar systems to Pakistan, at a time when it is thought to be making every effort to produce a nuclear bomb, causes suspicion of U.S. policy. Indians are unable to accept the argument that these arms are nothing but morale boosters or payoffs for a Pakistani regime willing to lend a hand in the Afghanistan imbroglio. President Mohammed Zia ul-Haq is not going to drop bombs on Kabul or Moscow, people in Indian say.

So the United States may prefer to play a waiting game before deciding truly to cooperate with the new Indian prime minister.

After Mr. Gandhi became prime minister last year, an East European diplomat remarked that it is a curious world in which large countries are ruled by former actors and airline pilots. But that is what democracy is all about. And the two leaders who will face each other this week both have the strength of immense mandates.

The writer, a former Indian ambassador to France who retired recently, contributed this comment to the International Herald Tribune.

In Lebanon, Might Was Neither Right Nor Smart

By Anthony Lewis

NEW YORK — Three years after Israeli forces entered Lebanon, all but the willfully blind know that the war exacted a terrible price from both invaded and invaders. Lebanon paid in destruction, death, intensified communal chaos. Israel paid in heavy military casualties, economic drain, loss of national confidence.

But there is a larger political point to be made about the invasion. It represented an extreme application of the view that military force can impose lasting political solutions in the Israeli-Palestinian conflict. And there one can see important lessons for the current effort to revive the Middle East peace process.

The Israeli invasion was the second attempt to use Lebanon as a military fulcrum for political ends in the Israeli-Palestinian conflict. The first was made by the Palestine Liberation Organization, with its buildup of weapons and men in southern Lebanon up to the 1982 Israeli invasion.

The PLO buildup never seemed to make sense. If the aim was a capability to engage Israel's forces frontally, it was a delusion. Alternatively, an occasional rocket fired over the border could cause stress in Galilee; but if pursued, that tactic would inevitably bring crushing Israeli retaliation.

The emphasis on military buildup kept attention from what should have mattered to the PLO: politics. The inescapable fact for Palestinian realists, in the 1970s and 1980s, was that only by coming to terms with the existence of Israel could they hope to have a little piece of earth to call their own. Delusions of military conquest only made a political solution harder.

Then it was Israel's turn to pursue a military illusion in Lebanon. It was the illusion of Ariel Sharon, then the defense minister, who believed he could use a war against the PLO in Lebanon to crush the political hopes of Palestinian nationalism for good.

The story of how Mr. Sharon bullied and deceived his cabinet colleagues so he could have his war has been told. But a new account has come from Samuel W. Lewis, who is retiring after eight years of service as U.S. ambassador to Israel.

Mr. Lewis said that in December 1981, six months before the invasion, Mr. Sharon described his ambitious war plans to U.S. diplomats — who were "dumbfounded" by the idea and considered it "unthinkable."

The history is highly relevant today because Ariel Sharon is. One might have expected that he would fade from the political scene, but Mr. Sharon has not faded. And the philosophy he expounds, of force as a political solution, is very much alive.

Right now the most important peace effort in years is under way. King Hussein is pressing his plan for negotiations between a Jordanian-Palestinian team and Israel under international auspices. The U.S. secretary of state, George Shultz, is taking an active interest.

But the enterprise faces a fundamental obstacle. Among both Palestinians and Israelis there is deep division between those who think political negotiation can gain national objectives and those who believe force is the only way.

The division of Palestinians between the hard men and those prepared to talk and live with Israel is obvious. There is sharp division in Israel, too — and Israel has the presence and the power to determine whether negotiations even start.

Mr. Sharon made the issues clear in a comment on the Hussein plan. It was unacceptable, he said, because Israel would not exchange occupied territory for peace. That is basically the view of the Likud, the rightist partner in the national unity government. It is difficult to see how substantive negotiations can occur while the Likud is part of the government.

It is understandable that possession and power should seem the only way after all the bitter years of conflict. But Lebanon teaches that force can be a delusion: that both Israelis and Palestinians may find greater security if they can ever talk.

The New York Times.

Vonnegut in Poland: 'Spirit of Solidarity Lives'

NEW YORK — Two American writers, Kurt Vonnegut Jr. and William Styron, visited Poland in March. They met with dissident writers (including members of the disbanded PEN Club, or writers association) and Solidarity leaders. Tygodnik Mazowsze, an underground paper, interviewed Mr. Vonnegut.

Questioner: Have you been following developments of recent years in Poland?

Vonnegut: Yes, after all, Solidarity has caught the attention of the whole world. I can't think of another social movement that is as unambiguous — in a positive sense. Our interest in it is selfish. The American government is interested in it because it means that the Soviet Union has enemies here, but our selfishness is of a different kind. We would simply like to learn from Solidarity — to learn about the human condition, about men's possibilities and social conduct in conditions of danger.

Q: What gave you the idea of coming to Poland?

A: I had just finished a book and felt like going somewhere. I was curious about the situation of my Polish colleagues. Styron and I belong to the world organization of the PEN Club, and we do not like to be cut off from the writers in any country. We are interested in literature. . . . We are apolitical. But we are also interested in the freedom of thought and speech. We have no power, and we cannot make the Polish government reinstate the PEN Club. All we can do is to tell our Polish friends that we are on their side.

Q: You have not met any officials, but you have talked to Solidarity chairman Lech Walesa and to a leader of the Solidarity underground, Zbigniew Bujak.

A: When I meet a man, I become personally involved in the cause he represents. To a foreigner, Lech Walesa is like a Tibetan lama or Mother Teresa or Mahatma Gandhi. I talked to Walesa about the ways people in Poland can be active nowadays. I think it very encouraging that it is here that Marx's dream is being fulfilled — his dream of the withering or ignored state. I believe people lose a great deal of freedom when they begin to accept things from the government instead of from each other. Why? Because all governments — those that really have power — treat their peoples badly. The Polish underground is creating a society that is able to dispense with the state.

Q: Should we be optimistic?

A: Even with occupation, troops lurking behind the fence, we still might be lucky and have a beautiful day. One should enjoy this.

Q: Is there anything else you would like to say to the readers of an underground Solidarity paper?

A: The spirit of Solidarity lives on and affects the life of humanity. Nobody is completely successful in his life. What happened in Poland may not be a great success, but nobody has so far done any better.

The New York Times.

LETTER

On Rating Airlines

We read with interest your mention of some results of our membership survey in your Special Report on Aviation *(May 31)*, which included *lists* of preferred and avoided airlines. Unfortunately, the results quoted were taken out of context. The survey, conducted among the 100,000 worldwide members of the International Airline Passengers Association, is, we believe, the most comprehensive of its kind. The information you published was based on raw data from this survey and makes no allowance for a key factor in determining preference or avoidance: actual experience of flying the airline.

Analysis of preference or avoidance in relation to the respondent's experience with airlines reveals a very different picture from the one shown in your table. For example, British Airways, one of the world's most frequently flown airlines, does not figure among the five most avoided carriers, though it topped your list.

COLIN EVANS,
Senior Vice President, IAPA,
Irving, Texas.

Letters intended for publication should be addressed "Letters to the Editor" and must contain the writer's signature, name and full address. Letters should be brief and are subject to editing. We cannot be responsible for the return of unsolicited manuscripts.

A Monthly Report for the International Investor — International Herald Tribune — Monday, June 10, 1985

PERSONAL INVESTING

INVESTOR'S Notebook

London's Junior Market

London's Unlisted Securities Market is continuing its healthy growth, with more than 35 new issues since the first of the year. That brings the number of small companies registered on the junior exchange to more than 280.

There have been some disappointing showings, however, especially among a spate of entries in the food sector. Investors, jolted by a slump among USM technology issues, turned to the food-related sector as "new and emerging," explained Marian MacBryde of Hoare Govett. Then, "quite a number of poor results from the food companies" dampened the enthusiasm, she said.

But new issues by consulting, public-relations and sales-promotion firms remain a bright spot, she reported. Holmes & Marchant, a graphic design and sales-promotion company, was well received when it came to the market a few weeks ago. It is currently trading at about 28 (35 cents) pence a share, indicating a price/ earnings multiple of 21. Another entry was Moorgate, a financial public-relations firm. The star of the sector remains Valin Pollen, an advertising and public-relations company that is trading at about 40 pence a share.

The Maple Leaf Boom

The U.S. House vote last week favoring sanctions against South Africa has accelerated the movement of gold coin investors into the Canadian Maple Leaf at the expense of the South African Krugerrand. Alan Posnick of Manfra, Tordella and Brookes, a New York precious-metals dealer, said "people are obviously showing a growing concern that [an import] ban is coming closer to reality."

Usually, the Canadian and South African coins sell at about the same premium over spot gold prices. But after the House vote, the Maple Leaf was selling at about a 3-percent premium versus a 2.5-percent premium for the Krugerrand, Mr. Posnick said. There has also been "much more swapping" of Krugerrands for Maple Leafs, he said.

Krugerrands used to outsell Maple Leafs by more than two to one in the New York market. Mr. Posnick says sales of Maple Leafs and Krugerrands were about equal in the first four or five months of the year.

On Money and Morals

The renewed protest about investment in South Africa has also focused attention on "moral" mutual funds. These are U.S. funds that examine a company's sense of social responsibility as well as its bottom line before making an investment in its stock. Managers of the more traditional funds have long viewed their high-minded colleagues with some skepticism. But a look at the recent performance of some of the moral funds raises questions about whether such an investment strategy is necessarily harmful to returns.

The Calvert Social Investment Fund of Bethesda, Maryland, has been one of top moral fund performers this year. Founded two years ago, Calvert is a managed growth fund and money-market fund with combined assets of $63 million. In the five-month period ended May 23, the fund generated a return of 14.6 percent, according to Lipper Analytical Securities. This is almost two percentage points ahead of the Standard and Poor's 500 average.

Grace Parker, an assistant vice president at Calvert, said the fund is opposed to apartheid and will not invest in companies that do business with South Africa. The fund also shuns arms makers, companies that do not follow fair labor practices and even U.S. Treasury bonds. Treasury bonds, explained Miss Parker, support military spending.

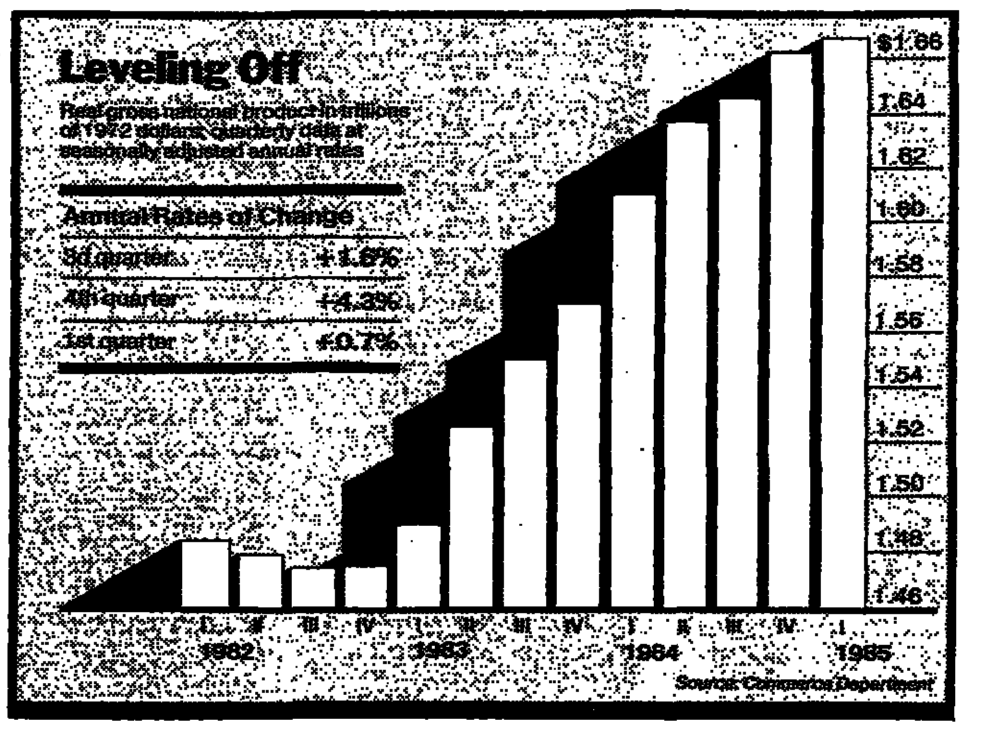
The Merc Branches Out

Two U.S. exchanges are closer to offering futures contracts on Canadian and Japanese stock indexes. Three weeks ago, the Chicago Mercantile Exchange agreed with Nihon Keizai Shimbun to market the Japanese newspaper's Nikkei composite average of 225 stocks traded on the Tokyo Stock Exchange and the broader Nikkei 500 index. Under a two-year licensing accord, the Merc can market the contract in North America and Asia, excluding Japan.

William J. Brodsky, president of the Merc, said the contract would initially be offered on the Singapore International Monetary Exchange because of the time-zone difference. But Mr. Brodsky hopes that Nikkei averages will eventually be offered in Chicago as part of the Merc's futures-trading link with Singapore.

The Chicago Board of Trade, meanwhile, said it would seek approval from the Commodity Futures Trading Commission to trade a futures contract tied to the Montreal Exchange's Canadian market portfolio index. The CBOT wants to begin trading the index of 25 of Canada's biggest companies next year.

Gauging the Impact of Slower U.S. Growth



NO SOONER had investors learned to live with the nagging problems of the dollar's strength and stubbornly high interest rates than another troubling development appeared on the horizon: the waning strength of the economic upturn.

In interviews conducted by the International Herald Tribune with more than 30 portfolio strategists and economists in the major financial centers, a clear picture of concern emerges about the slowdown in the U.S. economy and the ramifications for Europe and Asia.

This may be the single most important issue for investors in the second half of the year. Many analysts have been taking a second look at individual markets, sometimes redefining prospects in the light of slower economic growth, as well as domestic influences.

Such worries are not new. Debate about the durability of U.S. economic growth has been heard since the recovery got under way in earnest in 1983. But the anemic growth recorded in the United States in the first quarter of this year has heightened concern. Late last month, the Reagan administration said the economy grew at a 0.7 percent annual rate in the first three months of the year, about half the initial estimate. Although Washington is sticking to its projections of 4-percent growth in 1985, the realization that rallies in Tokyo and to some degree in Europe have been tied to export growth has money managers fretting over the vitality of the U.S. economy.

Many U.S. analysts dismiss the current sluggish economic climate as a temporary setback. Michael Sherman, chief portfolio strategist at Shearson Lehman Brothers in New York, argues that the world economy is still building up momentum for what will be an unusually long recovery. "I've taken the attitude that this cycle we're in is not a normal cycle," he said. "When you look around the world for signs of growth, there just aren't a lot of examples. Europe is in stagnation. There is just not a whole lot of thrust around. We're in the early stages of a long cycle."

Last month's decision by the Federal Reserve to cut the discount rate by half a percentage point to 7½ percent is seen by most observers as a commitment to sustain economic growth at a slower, but acceptable, pace through the end of the year. Many experts expect the growth rate to average from 2 percent to 3 percent in the second half.

Already speculation is building about another slight reduction in interest rates. "I see another cut in the discount rate in the next month, or month and a half, before the end of the summer," said George Collins, director of fixed-income research at T. Rowe Price, a mutual fund group. "The economy will pick up."

While concern over the dollar and interest rates remain, it no longer appears as a dominant theme in investment circles. Most analysts do not foresee any major drop in U.S. or European interest rates

(Continued on Page 8)

TOKYO:

Spreading doubt about the outlook for exporters

When Minoru Miura talks of Tokyo's two-tier stock market, he is not alluding to the traditional segregation of big and small companies on the stock exchange. Instead, the senior research analyst at Nikko Securities is referring to the market's new fascination for domestic issues and its decidedly bearish view of blue-chip exporters.

In many ways, Mr. Miura's view reflects a new reality in the Tokyo market, which has enjoyed nearly uninterrupted gains since 1974, thanks largely to Japan's export might. The prospects of slower growth in the United States and a worrisome trade conflict with Washington, analysts say, could mean a decline in the volume of sales to American consumers.

Now, instead of Toyotas, Sony televisions and high-technology gadgets, Japanese analysts are looking to other symbols to portray the investment theme through the end of the year. Usually they are found in the less glamorous world of clothing stores, construction companies and fast-food chains.

Market analysts are betting on strong domestic demand and are looking for consumer-related stocks that can benefit. Even the banking sector, a strong area in the past 12 months, is not expected to do as well. This greatly limits the choice of sectors with significant upside potential.

"Basically, you can write off 50 percent of the market," said Nobumitsu Kagami, who heads No-

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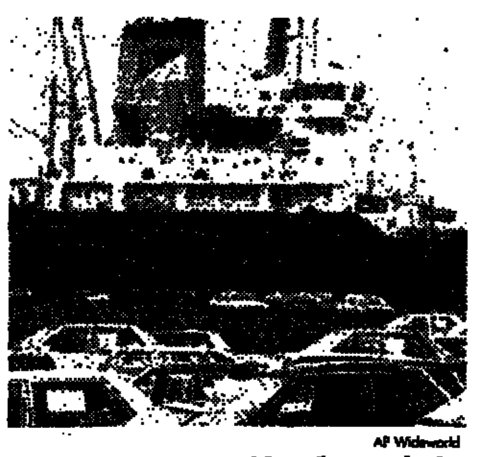
AP Wideworld
Japanese cars on a New Jersey dock.

NEW YORK:

Faith in upturn remains strong


AP Wideworld
Robert Salomon Jr.

The crisis over savings and loan institutions in Ohio and Maryland had just abated and the nation's economy was showing signs of fatigue, but the Dow Jones industrial index quietly stepped across a record 1,300 mark last month, and it shows few signs of giving up any ground.

While it is true that Wall Street has made a habit of looking for silver linings in economic clouds, the latest market confidence reflects the belief that business activity will pick up in the next half and the reality that stocks and bonds offer the best returns in a low-inflation environment.

Few analysts expect U.S. stocks to duplicate the bullish run of 1983 or even to keep up the pace so far this year. Instead, most market watchers expect steady, if unspectacular gains through the rest of the year, with a handful seeing the Dow at 1,400 by the end of the year. "We've had pretty good times in the first six months, I would be very surprised to match it," said David Testa, who manages T. Rowe Price's Growth Fund.

The view among analysts in the United States is that the economic slowdown is cause for concern, not panic. Most expect activity to remain slow in the current quarter but have a more optimistic growth scenario for the second half. Their confidence stems from a widely held view that the Federal Reserve has finally overcome its lingering misgivings about inflation and displayed willingness to accommodate the economic upturn through lower interest rates.

Indeed, the gradual reduction in interest rates and expectations of further declines are behind the New York Stock Exchange's recent good fortunes. Few on Wall Street talk of a steep drop in rates. Instead, most analysts anticipate a slow descent, just enough to nurture the lagging expansion. Even the nervous talk of the bulging federal deficit and its impact on rates, which was a common theme in 1984, have waned as the Reagan administration and Congress work toward a compromise.

"There's a lot of pressure on the Fed to bring rates down," said Michael Sherman, chief portfolio

(Continued on Page 8)

LONDON:

Crucial factors: new issues and weak oil prices

Global attention focused last week on the vote by the London Stock Exchange to begin deregulating trading next year, but a more immediate concern to many analysts was whether the British market's recent strength can be sustained through the end of the year.

Few expect a major fall in share prices, but a number of analysts think that the market may not have much more room for growth, especially in view of falling oil prices and the weight of new issues envisioned under the Thatcher government's privatization proposals.

Many stock pickers have decided on an approach that emphasizes domestic-oriented issues. These are the least likely to be hurt by the strengthening pound and could benefit from improving economic conditions.

Kenneth Ingles, head of equity research at Phillips & Drew, admits the outlook for stocks is "a bit tricky," especially with the manufacturing sector squeezed by the combined impact of sterling's gains on the dollar and high interest rates. However, he points to a "high-dividend culture" now being established in Britain that could help the market. With dividends growing on average by 2 percent to 3 percent in real terms, he says, investors are likely continue to buy equities.

His choices include Habitat Mothercare, Grand

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EUROPE:

The funds flock to Milan market

AP Wideworld
Milan exchange

Frankfurt may boast of record heights and Zurich its stability. But in the minds of many stock analysts, the big attraction in Europe in the second half may have a surprisingly Italian flavor.

Money managers around the globe are pouring funds into the tiny Milan bourse, where a reputation for insider trading and an erratic economy have traditionally gone hand in hand.

Although there are signs of reform, the new fascination with Italian stocks has less to do with a change in long-term fundamentals than with short-term structural changes. Last year, the government sanctioned the first domestic mutual funds, and Italian investors have been quick to jump in.

More than 20 funds now exist, and their big investments in equities have propelled the Milan market to record levels.

To avoid pushing share prices too far too fast, the funds slowed equity purchases in the spring, but the buying is expected to continue through the

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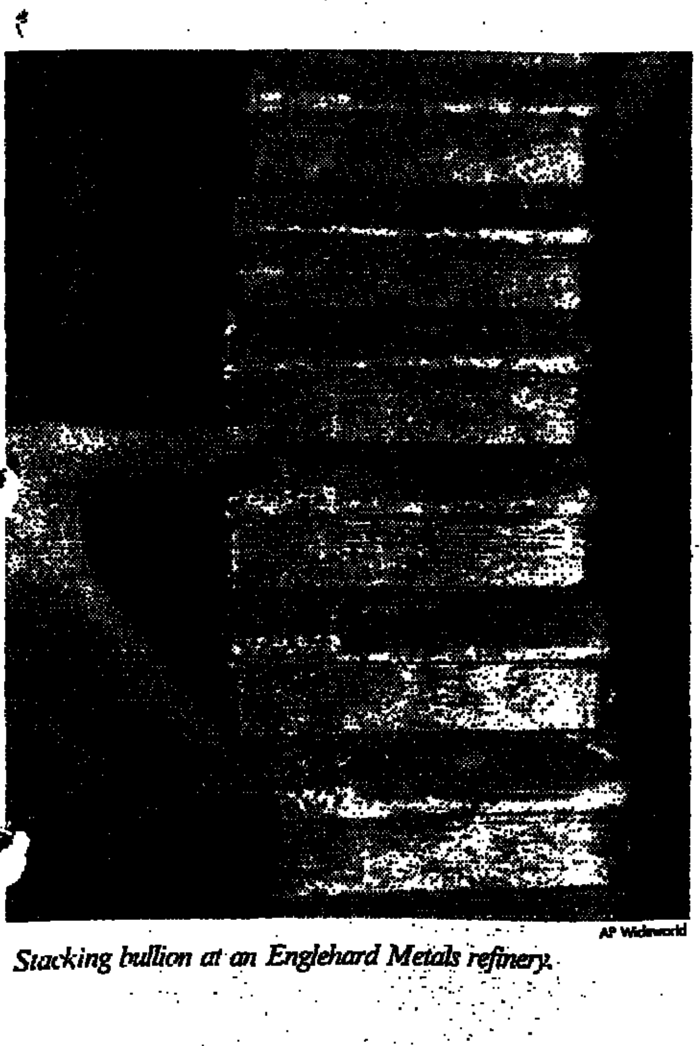
COMMODITIES


AP Wideworld
Stacking bullion at an Englehard Metals refinery.

Gold: Talk of Range, Not Rally

By Bruce Hager

New York

INVESTORS frustrated by the recent sluggishness in the gold market will take heart from Charles Stahl. The publisher of Green's Commodity Market Comments has been following precious metals and currency markets for more than 40 years, and he firmly believes a bull market is already in the works.

The reason is cyclical factors. "Normally, there's no exact timing in gold," said Mr. Stahl, who tracks the markets from Princeton, New Jersey. "But then, normally, bull markets should last longer than bears." The last bull market ran from 1976 to 1980, and the current bear market is well into its fifth year. What that means, Mr. Stahl says, is that investors should be prepared for a gold trading price of $350 to $380, sparked by a weaker dollar and higher inflation over the next six months.

A change would be welcome. Precious metals have been at a static stage since a brief March rally boosted gold prices to almost $350 on the back of a weakening dollar and the news that Ohio savings and loan institutions were on the brink of collapse. Gold has since retreated to the $300-$320 range, while silver has sunk to around $6 an ounce. Platinum has risen slightly to $265.

The main reasons for the price weakness, according to Mr. Stahl and other metal analysts, are the relative health of the U.S economy and the strength of the dollar. Both are key factors in any investor's decision to buy or sell gold versus securities over a given period, coupled with the current rate of inflation and interest rates. But with inflation in the low single digits and interest rates falling, some analysts believe the bear will die hard.

"The outlook is not particularly healthy for the short term," said Alan Davidson, a precious-metals analyst with Shearson-Lehman/American Express in London. "Physical buying has been improved below $300, but if the Deutsche mark went back to 3.20 [from its current 3.07 to the dollar], then I couldn't rule out a break below $300."

The dollar is not the only culprit, however. Oil prices have been weak recently, and coupled with Norway's decision in May to cut crude quotes, speculators have begun to predict the trend will be toward steady or lower prices in the near term, leading to a deflationary climate. "We are going to see very little upside ability," said Glenn Rosenberg, a research analyst with Rudolf Wolff Futures Inc. "Gold has lost its credibility."

To an extent. Analysts like to talk about "resistance points" or psychological barriers, and $300 is the bottom line these days. When gold dips below that mark, big traders such as Middle East countries and central banks rush in to consolidate or add to their positions. Another resistance point is $330, which the Russians have found attractive to sell at to raise currency.

That ceiling does not appear to daunt Michael Coulson, gold analyst at Phillips & Drew, the London broker. Mr. Coulson predicts prices could reach the $390 mark by November and breach $400 by early January on fears of natural economic slowdowns. "I am afraid it's not going to last very long," Mr. Coulson warns. "People are then going

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THE BOURSES

Slower U.S. Growth Forces Some Shifts in Strategy

(Continued from Page 7)

before the year's end. Those in the United States think interest rates will continue the gradual descent that began last year, with the yield on long-term bonds dipping below 10 percent from the current 10¾ percent.

Consequently, the likelihood of a dramatic fall in the dollar appears slim. Currency experts see it trading in a narrow range of 2.90 to 3.10 Deutsche marks. *Masahiro Yamada, who manages international* investments for Nippon Life Insurance, Japan's biggest corporation, sees a gradual depreciation, with European currencies benefiting in the short term. But he sees no reason to lower his exposure to the dollar. "The emphasis is still on U.S. dollar investments," he said.

With little headway expected against high real interest rates and with inflation rates at relatively low levels, a number of global money managers have been enlarging their portfolios of fixed-income instruments, especially in light of the fact that slower growth may hurt corporate earnings. Government bonds in the United States, Britain, West Germany and the Netherlands remain the favorites. The European instruments are especially attractive if the dollar weakens in the second half.

"For stocks to do well, bonds must do even better," said Karl Van Horn, chairman of American Express Asset Management in London. Mr. Van Horn is so certain of his convictions that 30 percent of his \$150-million equity portfolio is invested in bonds, primarily U.S. securities.

While the variety of bonds with good potential in the second half may make the selection process easier for investors, the choice of equities is proving a lot trickier.

In the minds of many, Japan is emerging as the first casualty of the U.S. slowdown. Scarcely a year ago, the Tokyo Stock Exchange was enjoying unrivaled *success and international money managers* continued to funnel investment dollars into the blue chips that had led Japan's export growth. Now, there are serious questions about whether trade levels can be sustained. The growing protectionist mood in Washington adds to the concern.

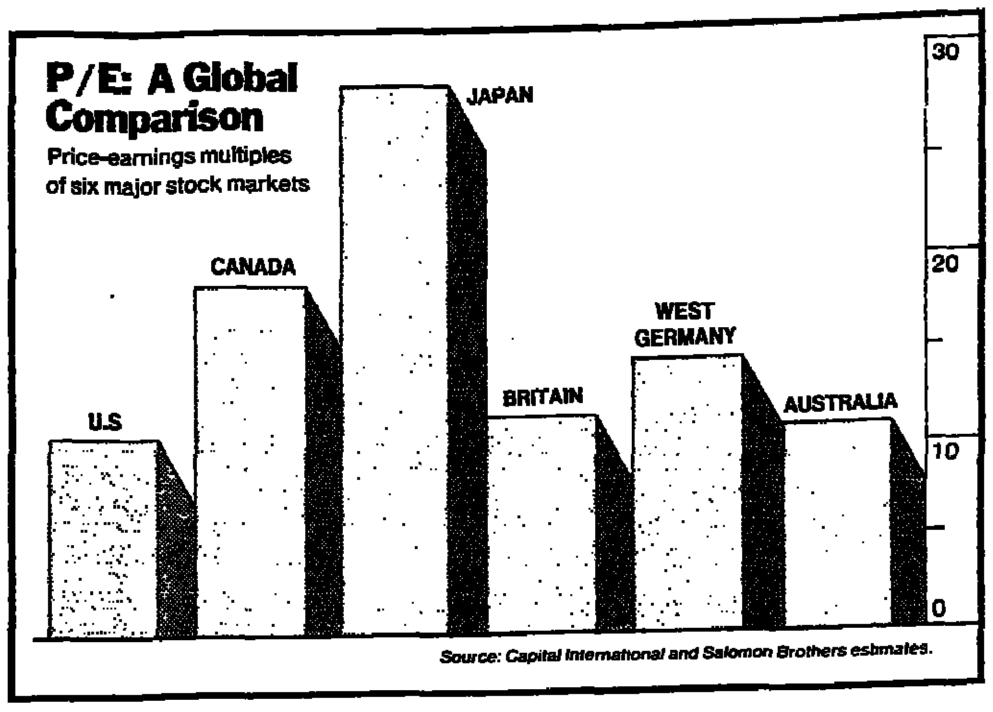
"It's a U.S. problem, but it's the major political issue for this market," said Michael Connors, who heads *Jardine Fleming's* research department in Tokyo. "Until we have a better view of the U.S. economy and world economy, people will still be jittery about blue chips."

NO ONE is suggesting that there will be a sharp correction in Tokyo, but doubts about whether the market can maintain *its upward momentum are widespread.* Tokyo's stumble in March frightened many investors and, several analysts say, pointed up the frailties of the market, where rallies are as much a product of speculation as fundamental factors.

Apparently weary of the Tokyo market's unpredictable nature, some money managers in Europe and in the United States have decided to lower their positions in Japanese stocks in the second half. "The Japanese have been engaging in private speculations at the cost of foreign investors," declared Christopher P. Murphy, vice president in charge of portfolio investments for Citicorp Bank in Switzerland.

European markets, which have enjoyed healthy rallies since the start of the year, are also seen as *vulnerable to the slowdown in U.S. economic* growth. In West Germany, where the economy depends heavily on exports, there are already signs of a shift in investment strategy in the Frankfurt market.

Portfolio managers at the big Frankfurt merchant bank, BHF Bank, are selling stocks in export-oriented companies that have led the market recently and placing greater emphasis on undervalued German blue chips and smaller companies. □



Source: Capital International and Salomon Brothers estimates.

TOKYO:

(Continued from Page 7)

mura Investment Management Co., a new division of Nomura Securities Co. that invests U.S. pension funds in the Pacific Basin.

Mr. Kagami, who expects the Tokyo market to be flat in coming months, admits to caution in Japan. Hitachi and Matsushita are among the few big exporters and electronic stocks he likes. He favors retailers, food companies and restaurants. "But nowhere would we make a big commitment," he said.

Not surprisingly, Mr. Kagami and other money managers are looking elsewhere in the Far East, especially in Hong Kong where price/earning multiples are less than half those in Tokyo. "I find the Japanese market is difficult to deal with. Most people have had a tough time," said George Noble, who manages Fidelity's international fund. "I think the chips are stacked against a lot of Japanese stocks."

Mr. Noble has limited his exposure in Japan to 10 percent of his portfolio. By contrast, Hong Kong accounts for 20 percent of the \$19 million he has under management. His picks included China Light & Power, Swire Pacific and Hutchison Whampoa.

Nikko's Mr. Miura is more optimistic. He expects Japanese economic growth to average about 5 percent this year and points to the recent rise in consumer spending and increase in housing starts as good signs for the market. He also notes that the increase in corporate earnings will probably filter down to Japanese consumers in the form of bonuses this summer. High on his buy list are Mitsubishi Estate, Japan's largest builder, and Tokio Marine & Fire, a leading insurance company.

Tetsuhiro Miyake, institutional research manager for Nomura, is concentrating on the property and housing sectors, as well as specialty stores. "It's a relatively defensive stance, and it doesn't differ much from our first-half choices," he said.

His current picks include Keiyo and Shimachu, small chain stores that cater to the do-it-yourself crowd. Mr. Miyake also likes some of the smaller clothing chains that are enjoying brisk sales. These


AP Wideworld

Nobumitsu Kagami of Nomura

include Suzutan, based in Nagoya, and two over-the-counter stocks, Taka Q and Cabin.

The main problem, Mr. Miyake said, is whether the government will take measures, such as a tax cut, to boost consumption. Measures to stimulate imports will be announced in late July, but a decision on a tax cut is not expected before year's end. "When we see an upturn in domestic consumption, then we can turn toward the large retailers, Ito-Yokado, Isetan and Marui," he said. "For now its hard to justify their price/earning multiples."

Up until a few weeks ago, Hisamichi Sawa, director of research at Prudential-Bache in Tokyo, went along with the accepted market view on exports. Since then, however, he has developed a contrary view. With high-technology exporters so out of favor, Mr. Sawa reasons that "the best time to accumulate these shares is when they're unpopular." □

NEW YORK:

(Continued from Page 7)

strategist at Shearson Lehman Brothers. The Federal Reserve Board "will be meeting every two months and do what they have to," said Mr. Sherman, who foresees a possibility of a series of discount-rate reductions if the economy does not respond to one or two cuts.

Consequently, analysts do not foresee any major shift in equity strategy in the next half. Most portfolio managers are still leaning toward consumer-oriented sectors and interest-sensitive stocks, such as utilities and banks. However, many of these stocks are no longer as cheap as they were last January.

Still, with prospects for continued economic growth, Robert J. Salomon, head of equity research at Salomon Brothers, says New York offers the best bargains on the basis of price/earnings multiples. "We're the cheapest major market in the world," said Mr. Salomon, who sees average market P/Es rising to *11 to 12 by the end of the year,* compared with the current range of 9.5 to 10.

Unlike others, Mr. Salomon sees the current climate of high interest rates and a strong dollar as a constructive transition period that is forcing companies to cut costs, trim debt and improve competitiveness in the face of imports. "Just look at the last six months," he said. "Profits have been disappointing, but the market has gone up — a clear indication that the market is being revalued."

When it comes to picking stocks for the next few months, Mr. Salomon prefers sectors that lie outside "the eye of the storm," those that can show pricing flexibility. This strategy rules out basic industries, which are struggling to compete with foreign manufacturers. He also dislikes *the oil and* mining areas.

Instead, Mr. Salomon focuses his attention on purely domestic areas, such as media and property casualty insurance stocks. In the media sector, Mr. Salomon likes Time-Life Inc., Capital Cities Communications, Knight-Ridder, The Washington Post and The New York Times. General Reinsurance, Aetna Life & Casualty, American Express and Marsh & McLennan are among his picks in the insurance sector.

In line with his broad view of the market, Mr. Salomon also likes looking for companies undergoing or likely to undergo restructuring. Among his current picks are ITT, Rexnord and Revlon. However, he acknowledges that there is a high risk in such a strategy that the restructuring will *go awry.* "To some extent you have to be as early as possible, but you can be wrong," he said.

In view of the market's gains so far this year, some commentators have begun to wonder whether the best performers have much more upside potential. "It won't be anything as near as exciting as it was at the beginning *of the year," said Fred* Fraenkel, director of equity research at Prudential-Bache.

He still considers the consumer and service sectors to offer the best potential. He likes such utilities as Florida Progress and Public Service Electric & Gas and regional telephone companies such as NYNEX and Southwestern Bell. USAir and AMR *are on his buy list for airlines.* □

This midyear review of major stock markets is based on reporting by Colin Campbell in London, David Tinnin in Zurich, Terry Trucco in Tokyo and John Meehan in New York.

EUROPE:

(Continued from Page 7)

year. "The liquidity buildup is amazing," said George Noble, manager of Fidelity's international fund in Boston. Montedison and IFI head Mr. Noble's buy list.

Aside from mutual-fund buying, Richard Overton, director of Aetna Montague Asset Management in London, which has £4 billion (about \$5 billion) under management, said he also likes Italy's recent political stability and points to improvements in economic conditions. Indeed, Italian inflation is heading lower and Consob, the regulatory agency for the securities industry, appears to be taking *steps to strengthen financial* reporting requirements. Mr. Overton's picks in Italy include Fiat, Mediobanca and Olivetti.

The new fascination with Italian stocks does not mean the experts have forsaken the bigger markets. Most generally remain optimistic about further gains in equity markets in West Germany, Switzerland and France.

The confident tone can be traced to a generally upbeat view of the economic recovery in Europe, although some analysts are concerned that a significant slowdown in the United States will harm Europe's export-led growth. Also contributing to the buoyant outlook for European markets is chronic concern about the dollar. A number of global money managers have placed limits on their dollar exposure, sometimes shifting assets to the continent where the Deutsche mark and Swiss franc are seen as likely beneficiaries of a drop in the dollar.

The strategy in Frankfurt and Zurich is to identify the sleepers, those stocks that might have been overlooked in the first-half rally and that still offer attractive price/earnings multiples.

The chemical sector is one area of search in West Germany. Analysts like BASF, Hoechst and Bayer whose P/Es range from 7.5 to 9. Still, no one is giving up on the big names. Mr. Overton likes Volkswagen, Daimler-Benz and Hypo Bank. The big three *banks, Deutsche Bank, Commerzbank* and Dresdner, also remain in favor.

In Switzerland, Hans-Conrad Kessler, director of investments and portfolio management at Swiss Bank Corp., says the emphasis should remain on the export and financial sectors, as well as capital goods and retail areas. He also likes the insurance sector, but warns that many insurance issues have already had a sharp run-up. The bank's buy list includes: Ciba-Geigy, Roche, Nestlé, Swiss Reinsurance and Société de Surveillance.

Despite the possibility of a summer pause, the Paris bourse is also expected to put in a solid performance in the second half. Mr. Overton points out that France is one of latest participants in the recovery. BSN and Moët Hennessy are high on his buy list. □

LONDON:

(Continued from Page 7)

Metropolitan, the hotels group "with a superb management record," and Courtaulds.

Michael Hughes, partner and chief economist at de Zoete & Bevan, also believes that the market's upside potential is limited. He contends that many British equities are "overvalued," although he agrees with other analysts and fund managers that some domestic stocks look promising. He likes insurance companies, such as Commercial Union and Sun Alliance and recommends Blue Circle and Redland, companies that specialize in building materials. Among electronic issues, he likes GEC.

Despite such defensive views, many analysts still believe there is much upside potential in London. "We see [the market] as still moving forward. There is very strong earnings and dividend growth," said Richard Williams, director of Hill Samuel Fund Management. He forecasts a *dividend growth of* about 10 percent next year, with yields of 5 percent to 6 percent.

With the economy in "quite good shape" and the pound gaining ground against the dollar, Mr. Williams also targets domestic-oriented stocks. Hill Samuel particularly favors the retail sector, with Burton and Tesco *named as good buys. Banks* are also seen as being quite inexpensive, with Barclays favored over the other major institutions. □

FUNDS

Bargain Hunting Among U.K. Investment Trusts

By Lynne Curry

London

DEVELOPMENTS on the British financial scene are making investment trusts, whose U.S. counterparts are known as closed-end funds, more attractive to investors as an alternative to unit trusts and mutual funds. "Investment trusts have never looked as promising as they do now," according to Ted Sellers, an analyst at Laing & Cruickshank, a London stockbrokerage.

Investment trusts share some positive points with their "open-ended" cousins, unit trusts and mutual funds. Investment trusts offer professional portfolio management and an opportunity to spread risks. In addition, the sales commissions on funds shares are lower than the brokerage commissions that would be charged to buy the underlying stock.

The crucial difference is that investment trusts maintain a fixed number of shares outstanding and are traded much as the stock of a conventional company. By contrast, unit trusts and mutual funds continually issue new shares as money flows in and redeem the shares of investors who want to cash in their holdings. These transactions are done at per-share net asset value, which is calculated by dividing a fund's net assets by the number of shares.

Because investment trusts hold their shares to a constant number, the fluctuation in the price of investment trust shares depends on the relative presence of buyers and sellers. Shares can trade either at a discount to net asset value when sellers outnumber buyers, or at a premium to net asset value when there are more buyers than sellers.

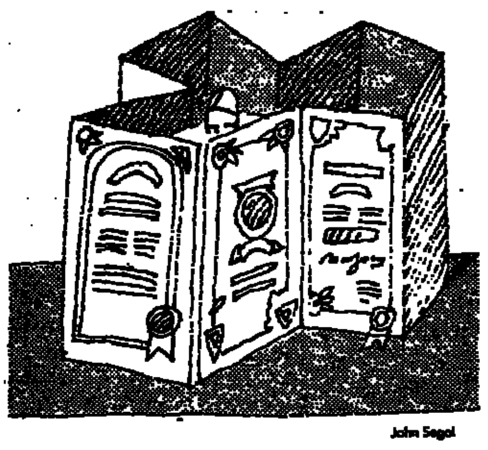
A main attraction of investment trusts rests in the opportunity to buy assets at a discount to their value.

"An investor is able to obtain income on a portfolio that's worth considerably more than he paid for it," said Thomas J. Herzfeld, president of a Miami, Florida, securities firm that specializes in U.S. closed-end funds.

For example, he said, if an investor buys $100,000 worth of stock with a 6-percent yield, he will get $6,000 worth of income annually. However, if the investor purchased $100,000 worth of investment-trust shares that are selling at a 30-percent discount, he will actually be buying $142,000 worth of assets. With the same 6-percent yield, he will be getting income on $142,000, or about $8,500 minus the management fee.

"That's a very compelling argument for investment trusts," Mr. Herzfeld said. "You get more bang for your buck."

As investors bid more aggressively for the shares of an investment trust, the discount can narrow as the share price is driven upward, closer to net asset value. Occasionally, big profits can be realized when investment trusts with large discounts are taken over and their holdings sold to yield their full asset value. Or the investment trust can be "unitized," meaning



John Segal

it is converted into a unit trust and the shares sold at net asset value.

The lure of deep discounts is one reason British investment trusts are getting more attention than their American counterparts. Discounts of U.S. closed-end funds have virtually disappeared, and a few are selling at a premium. In the past 5 to 10 years, discounts in the United States have narrowed from over 25 percent to below 5 percent, compared with an average discount of 23 percent for the British trusts. Some British investment trusts are even trading at discounts of 30 percent to 40 percent.

Because of the deeper discounts, Mr. Herzfeld, who had been an advocate of U.S. closed-end funds for years, recently shifted the majority of his firm's money invested in closed-end funds to British investment trusts. His strategy is simple: "The same reasons that narrowed the discount in the U.S. have fallen into place in London."

In the United States, discounts narrowed on the strength of a bull market that created enthusiasm among buyers of closed-end funds. In a deregulated financial environment, investors then pushed to cash in on their holdings. In addition, the end of fixed commissions for stock trades in 1975 put pressure on investment trusts because transaction costs became less of a factor in the investment equation.

London is following a similar route. In the past two years, London's financial community has braced itself for the planned introduction of negotiated commissions. Meanwhile, as more companies build up powerful stakes in closed-end funds, they are increasingly attempting to force them to "unitize" or take steps to insure that their discounts narrow.

"Over the last two or three years, particularly, there has been growing pressure on investment trusts to do something or wind up," said Alan Rooke, a salesman at Phillips & Drew, a stockbrokerage. "Management has been put on its mettle."

Professionals warn that there is more to investment-trust strategy than just finding a fund with a deep discount. "If an investor mistimes his decision," cautions Hamish Buchan, a Wood, Mackenzie Co. analyst, the share price "could do even worse than the underlying asset."

Thus, investors should not just look for the possibility of narrowing discounts. Asset growth should also be considered. In some cases, the discount could remain the same or widen, but the share price could also rise as the fund's net asset value improves.

For example, the share price of Foreign and Colonial, a diversified trust with £550 million (about $693 million) in assets, rose from 70 pence at the end of 1982 to 109 pence in 1983 and 129 pence last year. At the same time, the fund's net asset value grew from 105.1 pence in 1982 to 176.3 pence in 1984, while the discount narrowed from 33.4 percent in 1982 to 23.1 percent in 1983 and widened slightly last year to 26.8 percent.

"The narrowing of discounts is a bonus," said Mr. Sellers of Laing & Cruickshank. "The key is in looking to buy a trust with an unduly wide discount, but that is on top of the rise in the asset value."

"There should be some firm reason why it [the fund] is likely to outperform the market," he said.

The range of choice in Britain remains wide. The industry today has 200 trusts with assets of about £16 billion, which as a sector constitutes 5.5 percent of the market value of British registered equities. This is a far cry from the 20 funds that existed when investment trusts first appeared here over a century ago. The American closed-end fund industry is much smaller, with assets totaling $3 billion to $3.25 billion.

With an array of trusts to choose from, investors can select either a specialist fund, say, in oil stocks, or one with a broader, more internationally based portfolio.

Two of the specialized funds that Mr. Herzfeld believes are potential winners are North Sea Assets and Viking Resources. Both are oil-related funds, currently out of market favor, which Mr. Herzfeld believes could benefit from a triple play: a narrowing of the discount, an increase in the net asset value, and a stronger pound. Some of his other favorites include 1928 Investment Trust, Brunner and Throgmorton.

MR. BUCHAN singled out two other, more general industrial trusts that have performed well: American Trust, which has invested 80 percent in North America, and Continental and Industrial, which has a international spread of shares. Continental and Industrial has been the subject of speculation that Liberty Life, a South African insurance company, would mount a bid for it and convert it to a unit trust.

One selling point of investment trusts is their management fees, which are generally lower than those of unit trusts. Annual management fees typically run up to 1 percent of the value of the fund's assets. This fee comes out of the trust's income, meaning the dividends would be slightly higher if there were no fees.

For tax reasons, investors should be aware of the differing treatment of capital gains and dividends by British investment trusts and American closed-end funds. In investment trusts, dividends are paid out twice a year or quarterly. By law, capital gains must be reinvested in the company. A shareholder benefits from the capital gains when the trust's net asset value rises and the share price is pushed up. In the United States, capital gains must be distributed within a fixed period of time to the shareholders and dividends are usually distributed annually. □

Inviting Discounts

The share price, net asset value and discount at the end of the year for Mid Wind, a closed-end fund that specializes in small growth stocks world wide. The fund, with assets of £9.25 million, is managed by Baillie Gifford Co. Share price and net asset values are in pence.

	Share Price	Net Asset Value	Discount
1981	58p	72.6p	20.1%
1982	61	84.1	27.5%
1983	120	138.1	13.1%
1984	160	173.1	7.6%
1985 (End April)	172	184.1	6.6%

PROFILE

Ernest Kiehne Buys Stocks That Stumbled

By John C. Boland

Baltimore, Maryland

AMONG the old-school investors who shop for value among depressed stocks, the name Legg Mason Wood Walker Inc. has been gaining attention. The Baltimore firm's no-load mutual fund, since its inception in the spring of 1982, has turned in the best performance in the mutual-fund industry, according to Lipper Analytical Services. As of two weeks ago, the Legg Mason Value Trust was up more than 160 percent.

That return, about two-and-a-half times the Standard & Poor's 500 advance, has been earned without exceptional risk. Indeed, the current portfolio of more than 100 stocks sports many solid, well-known companies.

But most of them have one thing that attracts the fund's overseer, Ernest C. Kiehne: a blemish of some sort on the corporate record — such as a temporary decline in earnings — that has put the shares out of favor. As a result, Mr. Kiehne, who is Legg's director of investment policy, typically acquires the issues at less than their book value, at a lower price/earnings ratio than the market's average and at a fraction of the companies' revenue per share. He also prefers that the companies carry only moderate debt compared with net worth, show growth of 8 percent to 10 percent in revenue and generate surplus cash.

That basic, conservative approach has led the 67-year-old Mr. Kiehne and his colleague, William Miller, the firm's 35-year-old director of investment management, to more than their share of companies that subsequently have drawn takeover bids. The latest are Easco Corp. and Informatics General Corp.

In recent weeks, it has led also to greater enthusiasm for international oil companies, which Mr. Kiehne noted "we missed in 1984 and 1985." Because of strong cash flow, some of the oils are buying back their own stock faster than they are losing reserves, which means that reserves per share are rising. Among the oil stocks that Mr. Kiehne viewed as attractive at recent levels are British Petroleum, Royal Dutch Petroleum and Texaco. The Value Trust also holds a moderate position in Kerr-McGee.

Mr. Kiehne, who worked at American Telephone & Telegraph for 23 years in jobs unrelated to the stock market, is something of a Legg Mason find himself. He was a longtime private investor with a trading account at Legg Mason, which, in addition to managing money, is a retail brokerage. His market successes and research savvy were such that Legg Mason hired him in 1967 to be its director of research.

"It always seemed logical to me to buy stocks that were improvable, where profit margins were unsatisfactory and had reasonable prospects to become satisfactory in several years," he said.

NV Philips, the Dutch electronics company that trades over-the-counter in the United States, is a case in point. Philips could ring up sales equivalent to $80 a share this year (revenue grew 14 percent in the fourth quarter), and Mr. Kiehne expects that number to grow to $100 within two years. At $16, the stock trades at 20 percent of current sales per share. If profit margins reach 3 percent, earnings are likely to be about $2.30 a share this year, $2.80 next year and $3 in 1987, he reckons. That is the kind of progress that he hopes might double the stock price. Philips's book value is about $25, and research and development outlays, plus cash flow, are about $11 a share.

Mr. Kiehne also looks favorably on American Carrier Inc., a thinly traded over-the-counter issue that he bought aggressively in the March quarter. The Middle West-based trucking company is trading around $12.50, with revenue that he expects to reach $100 a share next year. Noting that the industry averages 4 percent for after-tax profit margins, Mr. Kiehne said: "If you could earn 2½ percent on revenue, that would be $2.50 a share." American Carriers cleared $1.35 a share in 1984, and Mr. Kiehne looks for

'It always seemed logical to me to buy stocks that were improvable.'

about $1.60 this year, and a possible doubling of the stock price.

It was similar analysis that brought Mr. Kiehne to SCM Corp., a diversified chemical, office-equipment and paper company that ranks as Value Trust's largest holding. The stock is trading around $48, versus the fund's average stock cost of $38.63. Revenue exceeds $200 for each of SCM's roughly 10 million shares. "If it earned 4 percent, SCM could clear $9 a share," Mr. Kiehne said, assuming some revenue growth. That appears within reach in a couple of years, he said.

Among the large-capitalization companies, Mr. Kiehne likes Allied Corp., which he bought as a chemical company but is happy to stay with now that the acquisitions of Bendix Corp. and Signal Cos. add a high-technology angle. With the stock down to $40 from a $46 peak, Mr. Kiehne argued that earnings of $5.50 a share and a market-average price-earnings ratio could lift the shares to $60 in two years.

Mr. Kiehne was a buyer in the March quarter of regional bank stocks, which already had performed well for the fund. Most

J. Levine

Ernest C. Kiehne

of them, he noted, are selling around seven-and-a-half times Legg Mason's estimates of 1986 earnings. Most of the banks in the portfolio are earning less on their book value than the average for regional banks. Virtually all, he suggests, are potential targets for buyouts (the fund has had several earlier bank holdings taken over). During the quarter, Mr. Kiehne more than doubled his stake in Mercantile Bancorporation Inc. of St. Louis.

At the moment, Mr. Kiehne's only real problem is an embarrassment of riches. The Value Trust has been attracting about $1 million in new money each day, which has raised the total under management to well over $200 million. Largely because of that influx, the fund's cash reserves have climbed to 14 percent. Given current stock prices, Mr. Kiehne said he didn't feel "too bad" about having that much cash.

Legg Mason is attracting so much new money that it hopes to start a second fund in about 90 days. That new offering will be a growth and income fund that might invest in bonds as well as stocks.

Mr. Kiehne is optimistic on the long-term prospects for the economy and the stock market, all the more so as it appears that the federal deficit might be trimmed. A lower deficit, a lower dollar, a smaller trade gap, perhaps a slower economy: Those might be the ingredients of an extended business upswing in 1986, he said.

One way to play Value Trust's success is by buying the stock of the brokerage firm's parent, Legg Mason Inc. The holding company's shares, which trade on the New York Stock Exchange, are about $15.75, compared with a 52-week low of $9. In its fiscal year ending March, Legg Mason earned 70 cents a share. With cash pouring in, Legg's management and distribution fees from the Value Trust (and from the forthcoming growth and income fund) stand to rise sharply, and its earnings this year could double. □

CHART TALK

The Fed's Gift to Wall Street

THE Federal Reserve Board stole center stage from the takeover talk that had been circulating through U.S. equity markets in May by reducing the discount rate to its lowest level since August 1978.

The reduction of half a percentage point in the rate to 7½ percent, effective May 20, infused life into a generally listless market, boosting major indexes to record highs. The Dow Jones Industrial index crossed the 1,300 mark on the first trading day after the announcement and closed out the month at 1315.41, up 57.35 points over April's finish. Standard and Poor's Composite index rose 8.2 points to end the month at 189.55.

"I think you'd have to say that it was pretty exciting," said Hugh Johnson, a vice president and head of investment strategy at First Albany Corp. "There were many people who foresaw a decline in interest rates but none of the fireworks."

Issues that benefited most from the Fed's discount-rate cut were the interest-sensitive stocks — utilities, insurance companies and banks. The Dow Jones Utility index, which market watchers say anticipates broad market trends, gained almost 10 points over the month to finish at 163.32.

But, according to Mr. Johnson, even the Fed's move was not enough to chase away all investor doubts.

"There is a lot of nervousness about the economy," he said, pointing to "continuing signs of the fragility of the banking system," notably the brief closings of savings and loan associations in Maryland, and a 0.2-percent decline in the latest leading economic indicators.

"We are at that point in the business cycle where you have to be on you toes," he added.

With caution still in the air, takeovers accounted for the most dramatic gains on the New York Stock Exchange. Houston Natural Gas, which agreed to be acquired by InterNorth pipeline, saw its stock rise on a $70-a-share tender offer. Katy Industry, which sold its Missouri-Kansas-Texas railroad to Union Pacific for $98 million, was May's big loser. Some investors had hoped for the sale to bring almost five times that amount.

London too felt the continued attraction of takeover targets, according Dennis Elliott, a director at Phillips & Drew. Mr. Elliott said that that British investors had ignored the conventional wisdom "to sell in May and go away." The Financial Times industrial index rose 31.1 points to finish the month at 1002.5

Leading the British issues was Debenhams. The retailer has been the object of a hostile takeover bid by Burton. United Scientific, Burmah Oil, and W.H. Smith also benefited from takeover rumors, Mr. Elliott said. BSR and Plessey, members of the beleaguered electronics group that have struggled with earnings reductions abroad, topped the loser's list.

After April's sharp setback, the Tokyo Stock Exchange regained some ground. The Nikkei-Dow Jones index climb 332.17 points to 12,758.46. Analysts noted that domestic issues that were insulated from currency exchange fluctuations and international trade conflicts were most attractive to investors. Investors also sought out undervalued issues with hidden assets.

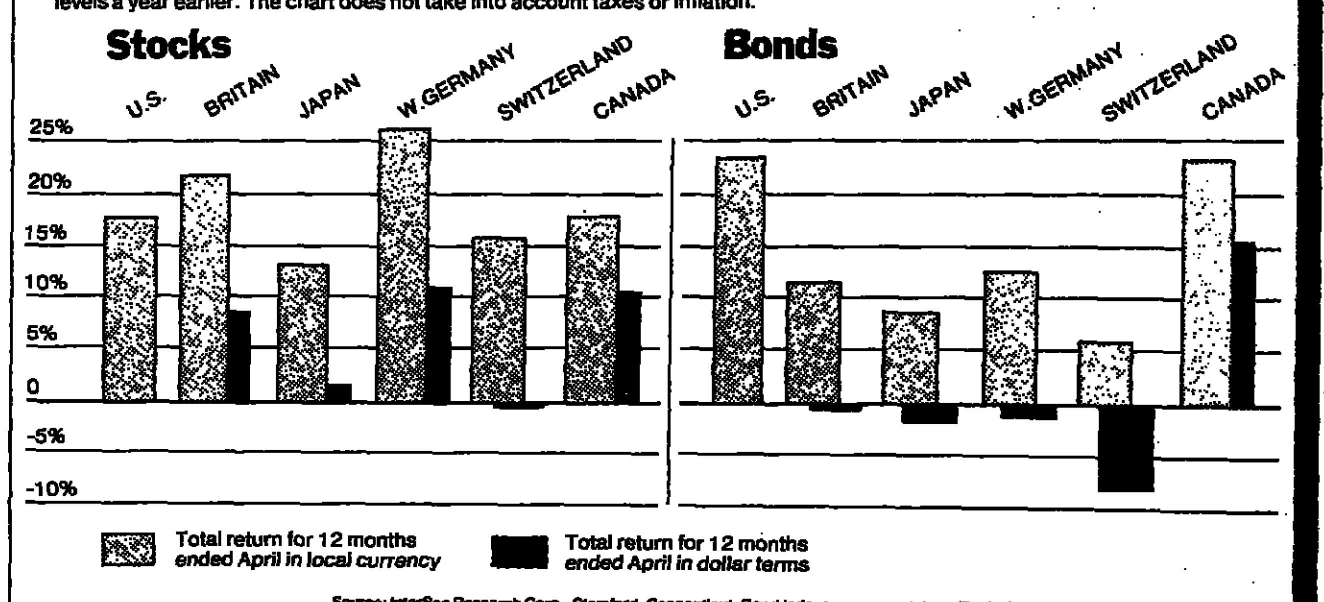
Market Scoreboard

The stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in May.

GAINERS	Percent Gain	May 31 Price	LOSERS	Percent Loss	May 31 Price
New York Stock Exchange: Compiled by Media General Financial Services. Prices in dollars					
Houston Natural Gas	46	68.50	Katy Industries	33	23.38
CNA Financial	40	54.00	Pioneer Electronic	31	13.75
Nabisco Brands	39	82.63	Unocal	28	33.50
UAL Inc.	33	53.63	GCA Corp.	23	18.50
Continental Info.	30	10.25	Transohio	20	10.25
Heilig-Myers	29	28.00	McIntyre Mines	18	29.13
United Brands	29	16.88	Mesa Petroleum	18	14.38
Called Inc.	28	21.50	TDK Corp.	17	36.75
Upjohn Co.	28	107.25	H.H. Robertson	16	31.75
Erbamont	26	13.88	Allied Products	16	18.25
American Stock Exchange:					
Forest Laboratories	52	27.25	Gross Telecasting	42	17.13
Greenman Brothers	45	34.00	Ruddick Corp.	16	24.25
American Biltrite	43	11.25	PEC Israel	15	10.00
Moore Medical	42	17.50	Metrocare	14	19.00
Lake Shore Mines	41	54.00	Tech-Sym	13	16.38
Over the Counter:					
Tofu Time	82	25.25	Continuum Co.	32	20.50
Waxman Industries	58	16.38	Micom Systems	28	16.25
Clothestime	55	20.50	Sym-Tek	25	12.50
Communications Ind.	39	28.63	Kulicke & Soffa	23	17.75
Newport Pharm.	38	10.50	Entre Computer	23	11.75
London Stock Exchange: Compiled by Capital International. Prices in pence					
Debenhams	39	388	BSR International	25	88
United Scientific	32	225	Plessey	25	142
Burmah Oil	26	286	Standard Telephone	18	170
Fisons	20	361	Ferranti	11	130
Bank of Ireland	19	295	Inchcape (U.K.)	8	390
Lucas Industries	19	302	Royal Bank Scotland	8	262
W.H. Smith & Son	17	248	Electrocomponents	8	286
BOC Group	15	309	British Com. Shipping	7	263
Whitbread	15	227	Rio Tinto Zinc	7	590
Guiness (Arthur)	15	277	Barratt Developments	7	80
Tokyo Stock Exchange: Compiled by Capital International. Prices in yen					
Nagoya Railroad	41	305	Pioneer Electronic	32	1,690
Mitsubishi Petrochem.	41	429	Tokyo Electron	24	3,390
Mitsui Real Estate	29	837	Makino Milling	18	1,020
Chubu Electric	27	1,630	Nippon Gakki	18	1,460
Mitsubishi Estate	26	779	Ono Pharmaceutical	16	5,240
Asahi Chemical	26	1,100	Mori Seiki	16	2,060
Kinki Nippon Railway	26	336	Kyocera	16	4,530
Kansai Electric	26	1,770	Alps Electric	15	1,570
All Nippon Airways	23	550	Amada	15	932
Fuji Electric	23	400	Sanko Steamship	15	100

Total Return for 12 Months

Total return measures both the changes in the prices of securities and the income they provide, either in dividends or interest. Gains and losses were measured by comparing market indexes with their levels a year earlier. The chart does not take into account taxes or inflation.



Source: InterSec Research Corp., Stamford, Connecticut. Bond indexes are proprietary. Equity indexes are from Capital International.

COMMODITIES

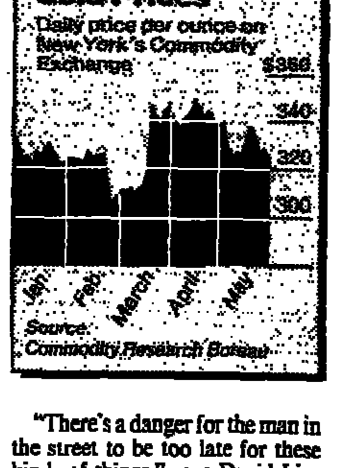
Goldbugs Talk of Ranges, Not Rallies

(Continued from Page 7)

to jump and say, 'Well, that looks pretty exciting.'"

James Kneafsey is more conservative. As the president of Cambridge Commodities Corp., a Cambridge, Massachusetts, research and advisory firm, Mr. Kneafsey recommends minimal purchases in the $300-$340 range because he does not see any sustained rally that would boost prices toward gold's historic 1980 high of $875 until there is firmer evidence on the direction of the U.S. economy. "We don't see a major run-up to $700 unless there is a major global crisis," he said.

By then it might be too late, because the major wild card besides interest rates and economic health is the old doomsday scenario. Gold prices are certain to jump if the Soviet Union invades Iran or the rest of the Middle East countries go to war over Beirut. But analysts discourage investors from reacting too quickly to crises as potential gold booms.



"There's a danger for the man in the street to be too late for these kinds of things," says David Linnehan, senior metals analyst with Merrill Lynch Futures Inc. in New York. "By the time its hits the papers, the factors have already been included in the price."

To show how quickly and erratically gold can react to news, Mr. Linnehan cites the example of the Federal Reserve's recent decision to cut the discount rate to 7½ percent. That was Friday, May 17, when gold closed at $324 an ounce. On the following Monday morning, gold was up $3 before, as Mr. Linnehan said, it "promptly fell out of bed" to $312, while silver tumbled 52 cents to $6.08.

The example shows how silver usually follows gold's lead, but there are some exceptions. Since silver is an industrial commodity used in the making of film, it reacts well to an uptick in economic health. But recent evidence of weakness in the U.S. economy has found silver struggling around $6 an ounce, far removed from its historic 1980 high of $50.35, which could be a veiled blessing for investors.

"I like silver at $6," says Bernard Savaiko, senior precious-metals analyst with Paine Webber Inc. in New York, who sees signs that prices have bottomed out. "The scraps supplies should dry up at current prices, and I don't see a dramatic increase in supplies until $7."

Other analysts, reflecting a market consensus, are conservative in their six-month estimates. Mr. Linnehan believes silver prices have been sluggish despite the past strength of the U.S. economy because of conservation efforts that film and other industrial manufacturers began exercising in the early 1980s. "They're trying to get by with less silver products and more of other products," he explained.

With silver weak and gold hesitant, the best play appears to be platinum. The metal has come a long way off its 1980 high of $1,189.50 an ounce. At $265, it offers a wide discount compared with gold, and its use in catalytic converters could spell a boom if Europeans go through with plans for stricter emissions controls.

"That was behind platinum's surge in 1980," Mr. Kneafsey said. "All things considered, platinum is a good buy. If you like gold at $315, you'll love platinum at $265."

For the immediate term, however, most analysts recommend restraint for those investors intent on padding their portfolios with precious metals. Even Charles Stahl, who believes gold is a good buy at $305 to $315 an ounce, says investors should reserve only 8 percent of their portfolios for the metal. And many analysts contend that because of the strong U.S. political climate and continued low inflation, there is more money to be made in guaranteed securities such as Treasury bills and bonds.

"It boils down to whether clients have confidence in paper money," says Mr. Savaiko at Paine Webber. "In the '70s, they didn't. But compound interest is one of the precious metals' biggest competitors." □

Correction

Two sets of total return figures in the May 13 Personal Investing chart were in error. Total return on Japanese stocks in the 12 months to the end of March was 15.97 percent in local terms and 3.27 percent in dollar terms. For West German stocks, it was 22.25 percent in local terms and 2.43 percent in dollar terms.

BONDS

Ginnie Mae and the LYON: Variations on the Fixed-Income Theme

Mortgage-backed Ginnie Maes offer attractive yields

By James Sterngold

New York

SINCE the postwar housing boom began in the United States, the mortgage market has expanded to a staggering $2 trillion as Americans pursued their dreams of homeownership. Given this mammoth market, it is little wonder that today's aggressive financial institutions have found ways to bundle, repackage and reshape mortgages into new kinds of securities.

Advertisements in U.S. financial publications extol the high yield and, usually, great safety of mortgage-backed securities. What the ads often do not make clear, however, is that mortgaged-backed securities are complex instruments. While appropriate for some investment situations, they can be damaging to investors who do not understand them.

"From the start, there were all kinds of problems with these securities, and some terrible abuses," said Robert Dall, an adviser to Morgan Stanley & Co. who has been involved with the latest generation of mortgage-backed securities since their inception 15 years ago.

"I don't think the problems were the result of misrepresentation, but of lack of knowledge," he said. "These securities aren't mysterious. They do require some thinking, though, and time to understand."

George Hester, a vice president of Paine Webber and a booster of mortgage-backed securities, said he sometimes cringes when he hears the advertising.

"Some of these brokers just tell you that you get these great yields of 12 percent or so," he said. "But they don't really tell you that there is more to know about them. You have to exercise care and read that fine print."

The federal government took the lead in creating investment securities from mortgages. The idea was for the government to buy mortgages from financial institutions that had actually made the loans, and then place similar mortgages in pools totaling millions of dollars.

Securities backed by these mortgages are then sold, with a return that reflects the interest rates that individual homeowners are paying. These "pass-through" securities have the full backing of the federal government.

The Government National Mortgage Association, known as Ginnie Mae, is by far the leading issuer of such securities, with $227 billion worth outstanding.

Two other government agencies, the Federal National Mortgage Association, known as Fannie Mae, and the Federal Home Loan Mortgage Association, or Freddie Mac, also issue mortgage-backed or mortgage-related securities. These securities, however, are tailored principally for the institutional investor.

Another difference is that Ginnie Mae purchases only government-insured mortgages, which adds another layer of protection for those who invest in Ginnie Mae securities. The two other agencies buy conventional mortgages, which do not carry such insurance.

The Ginnie Mae certificate has thus become the most popular form of mortgage-backed security. Its chief advantage is that it offers the highest interest rate of any government security. An investor receives as safe an investment as a Treasury bond, but with a better return. Ginnie Maes usually offer a yield of one-half percentage point to one percentage point higher than a comparable Treasury bond.

In many ways, Ginnie Maes are like a conventional fixed-income security. They are generally sold in maturities of 30 years and in minimum denominations of $25,000. Like bonds, the value of their principal rises and falls inversely to the prevailing level of interest rates.

But there are significant and potentially confusing differences.

Unlike most government securities, which pay interest semiannually, Ginnie Maes make payments monthly, of both interest and part of the principal. Interest payments fall throughout the life of the investment, as the amount of principal shrinks. It is thus known as a "wasting asset."

"We have to train our brokers carefully, and constantly, to get this across to the investor," said Stephen D. Leightman, first vice president and national sales manager of Prudential-Bache Securities.

This payback of principal derives from the fact that some holders of the underlying mortgages repay them before maturity. And the rate of the payback on the Ginnie Maes is unpredictable, although there is a tendency to repay faster as the interest rates fall; homeowners prefer to refinance at lower rates.

This payback situation has potential drawbacks. If investors do not understand that part of the monthly check is principal, they could be spending what they believe to be income, only to find later that their principal has diminished. Even those who do understand must decide what to do with that returned principal every month.

BROKERAGES have introduced variations on the Ginnie Mae to overcome some of these problems. Since many investors did not have the $25,000 minimum for a Ginnie Mae, the first efforts were directed at reducing the size of the minimum investment. This resulted in the unit investment trust. The trust consists of a pool of Ginnie Maes in which shares, or units, are sold. One can invest as little as $1,000, with $100 increments above that.

Next on the scene, and currently one of the hottest mortgage-backed products, is the mutual fund. The Ginnie Mae mutual fund is also a pool of securities in which the investor can, in effect, buy a share. But the advantage with mutual funds is that the principal paid back to the investor by the Ginnie Maes, and even the monthly income, can be reinvested automatically. And the funds are actively managed by the mutual fund company through the use of various hedging strategies. This can produce additional income for the investor.

There is, however, a cost for this management expertise. The mutual funds' interest rate is usually about one-quarter to one-half percentage point below that of a unit trust or actual Ginnie Mae certificate. The value of the units in a unit trust or a mutual fund rises or falls with fluctuations in interest rates. Mr. Hester said that his brokers are now selling a combination of these products.

Some income-oriented investors like to purchase Ginnie Mae certificates, and an adjoining Ginnie Mae mutual fund. That way they get the high yield and monthly payments of the certificate but they can automatically reinvest the returned principal in the mutual fund. When the amount invested in the mutual fund rises to $25,000, another certificate can be bought.

The Ginnie Mae mutual fund pays an interest rate of about two to three percentage points higher than a typical money market fund, Mr. Hester said.

Other mortgage-backed investment products are also available from brokers. There is growing popularity, Mr. Leightman says, of collateralized mortgage obligations, know as CMOs. These are bonds, issued by corporate borrowers, that have as collateral Ginnie Maes or some other mortgage-backed instrument. The mortgages provide strong backing to the bonds. The bonds provide certain and regular income; the Ginnie Maes do not.

Such backing means that corporate borrowers pay less than they would otherwise. But the investor still receives a better return, at higher risk, than the straight Ginnie Mae. Mr. Leightman said that corporate CMOs pay from a quarter-point to a half-point higher rates, but cautioned that the market is not as liquid as that for Ginnie Maes.

"What has made these accessible to the consumer now is that we've got them down to denominations of $1,000 minimum," he said. "And you don't have the problem of principal payback." □

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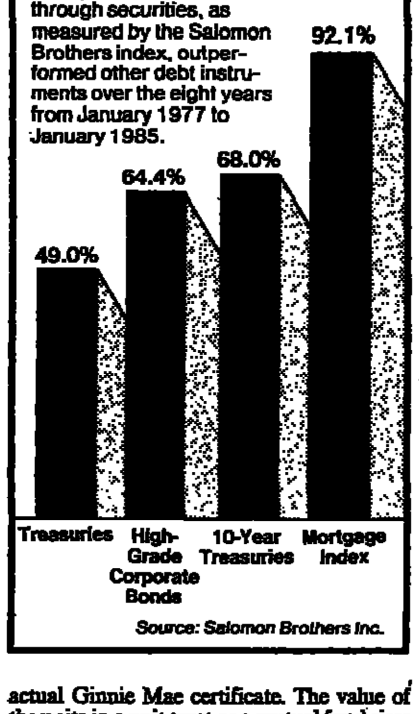
Big Gains

Taking into account both income and price changes, mortgage pass-through securities, as measured by the Salomon Brothers index, outperformed other debt instruments over the eight years from January 1977 to January 1985.



Source: Salomon Brothers Inc.

Merrill's LYON links zero coupon with a stock play

By Edith Cohen

New York

IN THE scratching and clawing for investment dollars in the past few years, Wall Street has unleashed a menagerie of instruments with a distinctly feline flair. Since 1982, when Merrill Lynch brought out a zero-coupon instrument dubbed TIGRs, for Treasury Income Growth Receipts, which was followed by Salomon Brothers' CATS, or Certificates of Accrual on Treasury Securities, the market for such investments has grown to $100 billion to $125 billion.

Now, Merrill Lynch has unleashed its LYON, or Liquid Yield Option Note, a complicated, hybrid security. The LYON combines the popular zero-coupon debt security with features of convertible bonds. Lee Cole, vice president of institutional sales, says the LYON was designed "for risk-averse investors" who want to be able to participate in a rise in the issuing company's stock but also have some downside protection.

The concept behind zero-coupon bonds is now well-known by most investors. These deep-discount bonds pay no interest until they are redeemed or reach maturity. The difference between the selling price and the value at maturity of a zero-coupon instrument represents the accrued interest.

The LYONs underwritten by Merrill Lynch in April are corporate zero-coupon securities issued by Waste Management Inc., a waste-disposal company in Oak Brook, Illinois, and Staley Continental, which controls A.E. Staley Manufacturing Co., a food processor in Decatur, Illinois. The securities pay a compounded annual rate of 9 percent.

The issues have two new twists. The investor has the right to convert the zero-coupon corporate security into the common stock of the issuing company. In addition, the investor gets the right after three years to "put," or sell back, the security to the company for the accrued value. In the first three years redemption in permitted but for lower yields.

The buyback guarantee safeguards against a sharp decline in value if interest rates climb. This is important, because prices of zero-coupon-debt instruments are more much volatile than those of conventional bonds.

Both the Waste Management and Staley issues were priced at $250, and they will pay $1,000 at maturity in 2001. Over the 16-year life of the securities, the investor has the option of converting the note into stock at a 10-percent premium to the market price on the date the issue's terms were set.

For Waste Management, which was trading at $52.125 on April 12, the LYON was convertible at a rate of $57.34 a share. This established a conversion rate for the life of the bond of about 4.36 shares of common for each note, calculated by dividing the $250 sale price by the price of a single share.

At any point in the life of the security, the investor simply divides the accrued value of the note by 4.36 shares to determine the per-share cost of converting it into Waste Management common stock. For Staley, which was trading at $18.95, the LYON was convertible on the first day of the issue at $20.625, or about 12.1 shares.

Like other convertible securities, the LYON is, in effect, a way to hedge market movements. The investor accepts a rate of interest somewhat below that of securities of comparable risk and maturity for the right to participate in any surge in the price of the stock of the issuing company. But should the stock fail to perform, the investor is guaranteed a fixed return, whether the security is held to maturity or resold to the company. The LYON confers an added hedge by putting a floor under the value of the security should interest rates surge.

The crucial question for the investor is whether the terms of the trade-off are attractive. A key issue is whether the outlook for the company's stock is sufficiently bright to justify the sacrifice of a few percentage points of yield. A look at the chart below gives an idea of how far and fast Waste Management's shares would have to rise for the convertible option to remain attractive.

Under the LYON formula, the effective conversion price rises with the accrued cash value of the instrument. Thus, on June 30, 1988, when the accrued cash value will be $301.87, the LYON could be converted into the common stock of Waste Management at $69.23 a share, or about 18 percent above its current market price.

For W. Theodore Kuck, vice president and portfolio manager of Equitable Investment Management Co., the Waste Management LYON seemed a reasonable play on the stock. "The most important decision for any convertible issue is whether you'd be a buyer of that stock. We believe Waste Management is an attractive stock," he said, and the LYON is "an attractive way to hold it."

"The downside protection was recognized at the offering by everyone," he said. "What they disagreed on was the upside performance potential of the convertible versus the upside performance of the common stock."

He notes that Waste Management zeros have outperformed the market to date.

But Mr. Kuck is far from being swept away by the LYON phenomenon. Sticking by his own rule of carefully evaluating the underlying stock in a convertible offering, he says, his firm did not participate in the Staley issue. "We didn't like the fundamentals."

Overall, however, the market responded well to both the Waste Management and Staley offerings. It snapped up $187.5 million of the Waste Management issue, valued at $750 million at maturity, and $87.5 million of the Staley, valued at $350 million at maturity, according to Mr. Cole of Merrill Lynch. He estimates that half was bought by institutions and half went to the retail market.

BUT critics note a few aspects that may make a LYON less than the ideal household pet. For one thing, Mr. Kuck notes that the company has the right to call the bonds for cash beginning in mid-1987. Such call features typically make a debt instrument less attractive to investors who buy bonds in the first place to lock in an interest rate for a fixed period. For the first two years, the stock must exceed $86 a share in Waste Management's case for the company to call it. And the holder of the LYON has 15 days in which to decide whether to convert it to stock.

However, Mr. Kuck says Waste Management has little incentive to call the issue. Companies that issue zero-coupon debt are allowed a tax deduction on the implied interest as if it were a bond that paid semiannual interest. In other words, the company receives a break on its current taxes even though the interest on zero-coupon debt is not paid until maturity.

The tax story can be different for the investor. In some jurisdictions, the imputed interest on zero-coupon bonds is taxed yearly as if the interest were being paid regularly rather than as a lump sum at maturity. Because of this, LYONS, like other zero-coupon instruments, are best suited for tax-deferred holdings, such as offshore accounts or tax-exempt retirement accounts. □

Tracking a LYON

The first three columns show the accrued cash value each year on June 30 of the Waste Management LYON issue if it were sold back to the company and the effective annual yield. The fourth column indicates the effective stock price if the instrument is converted into common shares.

Date	Accrued Cash Value	Effective Yield	Stock Price Equivalent If Converted
1988	$301.87	6%	$69.23
1989	333.51	7%	76.49
1990	375.58	8%	86.14
1991	431.08	9%	98.87
1992	470.75	9%	107.97
1993	514.07	9%	117.90
1994	561.38	9%	128.76
1995	613.04	9%	140.60
1996	669.45	9%	153.54
1997	731.06	9%	167.67
1998	798.34	9%	183.11
1999	871.80	9%	199.95
2000	952.08	9%	218.36
2001	1,000.00	—	—

SOMETHING DIFFERENT

The Rug Trade Is Seeing a Steady Climb in Prices

By Barbara Rosen

London

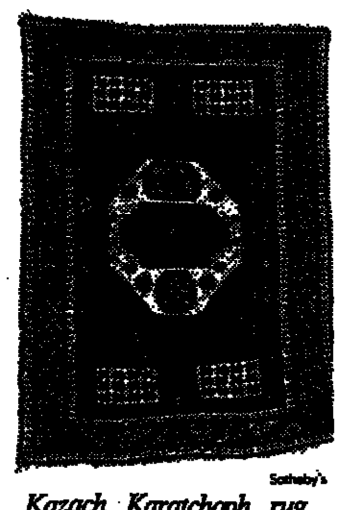
TWENTY years ago, recalled Peter Auckland, oriental rug shops in London routinely offered a free "Beluche" rug with every purchase. Dealers, he said, thought that giving away the small, hand-woven carpets from central Asia was a relatively inexpensive way to bring in customers.

Nowadays, such bonuses are unheard of. The prices of oriental rugs have risen dramatically in the past decade. Beluche rugs with geometric patterns and somber blues and reds are no exception. Mr. Auckland, a rug specialist at the Vigo Carpet Gallery, has several in his shop that range in price from £240 to £1,800 (about $300 to $2,250).

Mr. Auckland attributes the rapid appreciation to "rug scholarship." The general public, he says, has woken up to the detail and craftsmanship of oriental rugs. Prices have risen accordingly.

Although the term is sometimes carelessly applied to a wide variety of carpets, oriental rugs are unique. They are hand-woven, usually of wool or silk and originate from scattered provinces in the Far East, Middle East or the Balkans. Craftsman in each area or town usually have their own style and design, and the rugs are identified by region. Today, Iran, China, Turkey, India, Afghanistan, Romania, Albania, Pakistan and Egypt are considered to be the major oriental rug-making centers.

Rug dealers generally advise customers against buying relatively new carpets. Most only sell rugs that are at least 50 years old and especially prize any that date back from the 19th century. The reason



Sotheby's

Kazach Karatchoph rug recently sold for £15,400.

is that antique rugs in good condition offer the best bet for appreciation. In fact, Mr. Auckland cannot remember an example of an antique rug in good condition dropping in price in recent years. "If you buy at the top of the market, with some circumspection, you're always safer and stand a good chance of getting a good return," he said.

In shopping for a rug, David Franses of S. Franses, a rug and tapestry dealer, suggests that individuals select the type of rug they want "and then follow that rug" until they find a dealer offering a competitive price. "Never buy from the first shop," he said.

Given their popularity, it is not surprising that the definition of a quality oriental rug has expanded. For many years, Vigo's Mr. Auckland says, only the finest Persian rugs were in demand. These were usually made in cities by weavers working under relatively good conditions. In many cases this meant a roof over their heads.

But as the supply has dwindled in the past 20 years, the public has also been drawn to the look of other, sometimes coarser, rugs, he says. Many were made in villages. The coarseness or fineness of a rug is measured by the number of knots it contains. A fine silk rug from the Iranian city of Qum can contain 300 knots per square inch.

These days, tribal rugs woven by nomads are beginning to move up the price scale. Even the fashion for the light-colored Persian Heriz rugs is coming to an end, according to Mr. Auckland. "Now it's being recognized that you can find attractive pieces from almost any origin," he said.

Condition and design are very important in determining the price of a rug. When examining any antique oriental rug, Mr. Franses says, look first at the weaver's style. "An elegant weaver would work out a design for himself," he said. The rug must also be made of good quality wool, with a well-cut pile. An antique rug, of course, can show some wear.

The quality of the dye is also important. Chemical dyes used since World War I, particularly chrome-based ones, are considered precise and fast, but many dealers say the mellowing of dyes made from saffron, indigo or nutshells adds something immeasurable to a fine rug's beauty. By contrast, dealers warn that early aniline chemical dyes should be avoided since they fade into unattractive shades.

The drop in supply that followed the Iranian revolution has been offset by increased output from other areas, especially China. Among the more recently produced oriental rugs, some "are absolutely superb," Mr. Auckland said, but others are only decorative and offer little investment value.

Indeed, Jerry Habboo, director of A. Oundjian Ltd., a rug wholesaler, says he orders many rugs from Pakistan and China to certain specifications of color and design to meet the tastes of his European clients.

The long-term prospects of other recent rugs also do not appear good, experts say. New Persian rugs from Iran are said to be overpriced and of poor quality. □

International Bond Prices - Week of June 6

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277

Prices may vary according to market conditions and other factors.

RECENT ISSUES

Amt	Security	%	Mat	Str/Conv	Issue Price	Mkt Price	Yield
$ 100	Canon Inc	3 %	'00 No	c	100	91	3.79
dm 200	Quebec Hydro	7¼ %	'95 Jun	s	100	99½	7.30
dm 150	Bank Of China	7 %	'92 Jun	s	100	99¾	7.32
£ 75	Imperial Chemical Ind	11¼ %	'95 Sep	s	100	98¼	11.44
$ 100	Bank Of Tokyo Curacao	11¼ %	'95 Jul	s	101¾	105	10.42
dm 150	Hoogovens	7¾ %	'95 Jun	s	100	99¾	7.48
$ 100	Swedish Export Credit	10 %	'92 May	s	95	96	10.84
cn$ 100	Canadian Natl Railway	11¾ %	'93 Jun	s	100	100	11.38
$ 100	Sanwa Intl Finance Hk	11½ %	'92 Jun	s	100	107	10.86
nok 250	Scandinavian Airlines	10¼ %	'93 Jun	s	100¼	101½	9.84
$ 100	South Californ Edison	11 %	'92 Jun	s	100¼	101¼	10.74
cn$ 75	Shell Canada	11¼ %	'92 Jul	s	100¾	100¼	11.18
$ 200	Australia	11 %	'95 May	s	100	103½	10.42
$ 300	Australia	11¼ %	'00 May	s	100	102½	10.77
$ 100	Cox Corporation	11½ %	'92 Jun	s	99¾	101¾	11.13
$ 100	Tokai Asia Ltd	11½ %	'95 May	s	100	102	10.99
ecu 75	Philips Intl Finance	9 %	'93 May	s	100	101¾	8.71
ecu 100	New Zealand	9¼ %	'98 Jun	s	100	100	9.25
ecu 100	New Zealand	9½ %	'92 Jun	s	100	101	9.30
ecu 50	Escom Electr Supply	10¼ %	'98 May	s	99¾	103	9.96
cn$ 75	New Brunswick Provinc	11¾ %	'95 Jun	s	100	100½	11.54
ecu 50	Westpac Banking Co	9¾ %	'92 Nov	s	100	101	9.41
dm 150	Council Of Europe	7¼ %	'95 May	s	100	100¼	7.46
y 8000	Mortgage Bank Denmark	7 %	'92 May	s	99¾	98¼	7.33
dm 200	Spain	7⅜ %	'95 May	s	100	100	7.42
$ 100	Nestle Holdings Inc	9⅞ %	'91 Jun	s	100	100¼	9.82
$ 100	Denmark	11½ %	'90 May	s	100	102	10.95
dm 150	Portugal	7¾ %	'92 May	s	99½	102	7.37
$ 75	Council Of Europe	11 %	'90 May	s	100¼	103½	10.86
$ 100	Denmark			s	100¼	102½	10.43

STRAIGHT BONDS
All Currencies Except DM

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
	AUSTRALIA						
$ 50	Australia	8¼	'86 Jun	98¼	10.70		8.91
$ 120	Australia	8½	'86 Oct	97¼	8.64		8.52
$ 100	Australia	11¼	'90 Oct	106¼	9.67		10.57
y 15000	Australia	8½	'91 Aug	103¾	7.78		8.19
$ 60	Australia	8¾	'91 Oct	96	9.60	10.12	9.11
$ 150	Australia	8¼	'92 Sep	94½	9.31	10.00	8.73
y 15000	Australia	8¾	'92 Oct	105½	7.61		8.18
$ 200	Australia	11	'95 May	103½	10.42		10.63
$ 300	Australia	11½	'95 Oct	106¾	10.39		10.77
$ 75	Australia	9½	'96 Jun	88¾	11.02	11.45	10.34
$ 100	Australia	11¾	'98 Oct	107¾	10.55		10.83
$ 300	Australia	11¼	'00 May	102½	10.77		10.87
$ 25	Alcan Australia	8½	'89 Apr	94	10.45		9.04
$ 80	Alcoa Of Australia	12	'88 Jan	101½	11.24		11.82
$ 50	Alcoa Of Australia	16	'89 Jan	105½	13.87		15.17
$ 60	Alcoa Of Australia	10	'89 Jan	98	10.63		10.20
$ 30	Alcoa Of Australia	13½	'91 Apr	104½	12.25		12.92
ecu 50	Austra New Zealand Bk	9¼	'92 Apr	100	9.14		9.47
$ 75	Australian Ind Dev Co	11	'87 Feb	103	9.94		10.68
$ 100	Australian Ind Dev Co	11¾	'90 Feb	101¾	11.34		11.67
$ 40	Australian Mint Smelt	9¾	'92 Jun	89½	11.51	11.97	10.34
$ 30	Australian Resources	13	'86 Mar	103¾	7.95		12.53
$ 100	Australian Resources	13½	'87 Apr	105½	9.99		12.80
$ 35	Austroswiss	8	'87 Jul	95	10.80	12.28	8.42
$ 30	Broken Hill Pty	8¼	'89 Apr	92¾	10.64	11.96	8.87
$ 150	Broken Hill Pty	14¾	'89 May	109¾	11.52		13.44
$ 100	Broken Hill Pty	12	'90 Jan	106¾	10.10		11.25
$ 20	Broken Hill Pty	10	'90 May	94	11.66	11.98	10.64
$ 30	Comalco Invest Europe	9½	'85 Nov	99	11.83	11.88	9.60
$ 40	Comalco Invest Europe	10¼	'91 Jul	91	12.42	12.34	11.26

AUSTRIA

BELGIUM

CANADA

DENMARK

FINLAND

FRANCE

GERMANY

ICELAND

IRELAND

ITALY

JAPAN

LUXEMBOURG

MEXICO

MISCELLANEOUS

NETHERLANDS

NEW ZEALAND

NORWAY

SOUTH AFRICA

SOUTH AMERICA

SPAIN

SUPRANATIONAL

HIGHEST YIELDS to Average Life Below 5 Years

HIGHEST YIELDS to Average Life Above 5 Years

HIGHEST CURRENT YIELDS

SWEDEN

SWITZERLAND

UNITED KINGDOM

UNITED STATES AMERICA

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
$ 75	Arizona Ps Finance	16¾	'89 Feb	104½	14.49		15.55
$ 25	Arizona Ps Finance	16	'89 Feb	104½	14.27		15.31
$ 60	Arizona Ps Finance	11¼	'90 Jan	99½	11.85		11.81
$ 50	Armco O/s Finance	15⅜	'86 Dec	101½	13.99		15.15
$ 25	Ashland Oil Finance	8	'87 Jun	98½	8.83	9.61	8.12
$ 200	Astra	16¾	'92 Feb	114	13.79		14.69
$ 200	Atlantic Richfield Os	13½	'90 May	108¾	11.62		12.44
$ 50	Atlantic Richfield Os	13⅝	'90 May	107¼	11.72		12.82
$ 40	Avco O/s Capital	10¾	'87 May	100½	9.94		10.20
y 20000	Avon Capital Corp	6¾	'91 Dec	97½	7.23		6.92
$ 15	Bangor Punta Intl	5¾	'88 Jul	88½	9.75		5.93
$ 300	Bank Of America	12	'87 Apr	104½	9.22		11.48
$ 250	Bank Of America	8	'88 Mar	94	10.57		8.51
$ 100	Bankamerica O/s	16¾	'90 Sep	100¾	10.29		10.35
$ 150	Bankers Trust Ny	12¾	'89 Oct	105½	10.93		11.97
$ 100	Bankers Trust Ny	11½	'90 Mar	101	10.82		11.01
$ 60	Bear Stearns Co	13	'89 Sep	106	11.12		12.26
$ 100	Beatrice Companies	13	'89 Dec	102½	11.21		11.71

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
y 20000	Penney Jc Co Inc	6¾	'92 Feb	97¾	7.25		6.93
$ 100	Penney Jc Financ Corp	12¾	'91 Oct	108¾	10.43		11.47
$ 100	Penney Jc O/s Finance	11¾	'90 Oct	105½	10.45		11.26
$ 15	Pennwalt O/s Finance	8	'87 May	96	10.40	10.74	8.3?
£ 75	Philip Morris Cred Co	11¼	'95 Apr	99¾	11.32		11.??
$ 15	Philip Morris Intl Co	8¼	'86 Jun	99½	9.85	9.05	8.??
$ 200	Phillips Petroleum	14	'89 May	105	12.39		13.33
$ 150	Procter & Gamble	10⅞	'87 Dec	101	10.34		10.77
y 25000	Procter & Gamble	6¾	'92 Feb	98¾	6.86		6.71
$ 150	Prudential O/s Fundin	12¾	'87 Oct	106¾	9.43		11.96
$ 100	Prudential O/s Fundin	10⅝	'93 Apr	102½	10.14		10.37
$ 150	Prudential O/s F X/w	10⅛	'92 Dec	94	11.22		10.77
$ 200	Prudential Realty Sec	11⅝	'92 Jan	102½	11.28	11.07	11.59
$ 545	Prudential Realty Sec	12⅝	'95 Jan	108¾	10.60	10.50	11.15
$ 25	Ralston Purina	7½	'87 Feb	96½	9.79	10.26	7.77
$ 100	Ralston Purina	12¾	'89 Oct	108¾	10.09		11.71

(Continued on Page 14)

EUROBONDS

Guessing Game on U.S. Rate Unsettles Eurodollar Market

By CARL GEWIRTZ
International Herald Tribune

PARIS — Those who believe U.S. interest rates will decline further were buying Eurodollar bonds last week, those who do not were not, and those who have given up guessing were willing to follow the prevailing trend. Until late Friday, the trend favored dollar bonds. New York prices rallied sharply during the week and Eurobond prices were marked up by dealers as short-term rates eased and conviction mounted that a cut in the Federal Reserve's discount rate was imminent.

Those hopes were dashed by the May employment figures, which increased. This coming on top of Thursday's report of a renewed bulge in the growth of the basic money-supply measure sent short-term rates up, with one-year funds rising a sharp ⅝-point to 8⅜ percent.

As a result, the new issues launched early Friday in anticipation of further rate decreases, were left adrift. Electricité de France's $125 million of 10-year bonds, issued at 99½, fell 2½ points as did Seagram Co.'s $100 million of 10-year, 10-percent bonds, offered at par. EdF is using the proceeds of its issue to prepay its 13-percent notes of 1988 launched in 1981 and currently callable at a price of 101.

Eurobond Yields
For Week Ended June 5

U.S.$ lg term, Int'l inst.	10.63 %
U.S.$ long term, ind.	11.39 %
U.S.$ medium term, ind.	10.30 %
Can.$ medium term	11.26 %
French Fr. short term	11.40 %
Sterling medium term	11.36 %
Yen medium term, Int'l inst.	6.99 %
Yen lg term, Int'l inst.	7.06 %
ECU short term	8.68 %
ECU medium term	9.33 %
ECU long term	9.55 %
EUA long term	8.99 %
LuxF med term Int'l inst.	9.74 %
LuxF medium term	9.52 %

Calculated by the Luxembourg Stock Exchange.

Market Turnover
For Week Ended June 6
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	15,487.7	11,450.7	4,037.
Euroclear	29,759.3	26,822.4	2,936.9

International Business Machines Corp. announced it will call its 13⅞s of 1987 issued in 1982. The paper is callable as of Aug. 18 at a price of 101¾. IBM is refinancing the issue in the New York market, where it is selling $200 million of three-year, 9-percent notes and $200 million of five-year, 9⅝-percent notes. (On a Eurobond basis, the latter issue yields 9.86 percent.)

WHILE the early-week rise in New York was much sharper than the Eurobond rally, the New York decline was also much steeper. This meant that EdF and Seagram, which were priced at about 15 basis points over yields on U.S. Treasury paper, ended the week yielding less than Treasury bonds.

A major distinction that bankers make between the performance of the New York and Eurobond markets is that the New York rally was fueled by retail investors rushing to buy paper and the decline by those investors pulling back. The market in Europe, by contrast, is marked by a near-absence of retail demand.

The thrust behind last week's Eurodollar issuing activity was the continuing shift of dollar-based institutional investors either out of low-yielding deposits into short-dated securities or out of medium-term holdings into longer-term paper to grab a return of 10 percent or more while it is still available.

However, the Eurodollar market has lost a major source of support as bankers report that Japanese investors have shifted their buying activity to the Treasury market in New York. Bankers say the Japanese are not willing to take a view on the development of interest or exchange rates and — although they continue to purchase dollar securities — want the comfort of the vast liquidity of the Treasury market where they can dump their holdings at a moment's notice with minimum impact on prices.

Some analysts argue that the traditional retail demand for Eurobonds is not likely to soon reappear as portfolios are bulging with bonds and investors are increasingly turning to shares as yields on new bond issues drop to levels that are no longer compelling.

Meanwhile, with financing costs well below the coupon levels, underwriters remain willing to take on new commitments — although by the end of last week, not all of these were still showing a profit.

Ford Motor Credit Co., which broke the 10-percent barrier on five-year paper, set a coupon of 9½ percent on its notes and an issue price of 99¾. But by the end of the week the notes were quoted at a discount of 3⅛ points for a yield of 10.46 percent.

Atlantic Richfield Co. ended with a discount of 3¼ points on its $250-million, 15-year issue which was offered at 99¾ with a coupon of 10¼ percent.

Escom, South Africa's Electricity Supply Commission, tapped the market for $100 million, offering six-year notes at par bearing a coupon of 11½ percent. The appetite for South African paper is limited and the coupon reflects this.

Denmark structured its $100 million of seven-year notes to

(Continued on Page 15, Col. 1)

G&W Sale Of Units Planned

Wickes Is to Pay About $1 Billion

International Herald Tribune

NEW YORK — Gulf & Western Industries Inc., the entertainment and consumer-products company, said Sunday it had agreed in principle to sell its consumer and industrial products groups to Wickes Companies Inc. for about $1 billion and the assumption of about $90 million in long-term debt.

Martin S. Davis, G&W's chairman and chief executive officer, said the sale "substantially completes" the sweeping restructuring program he began in 1983 after taking the helm of the company.

The latest sale "reflects our continuing commitment to sharpen the focus of Gulf & Western," he said in a statement.

The divestiture includes two companies with widely recognized brandnames — Kayser-Roth, which makes apparel and hosiery, and Simmons, which makes bedding and home furnishings.

A.P.S., an automotive parts distributor, and G&W Manufacturing, a maker of automotive, electronic and construction products, make up the rest of the properties to be sold to Wickes.

The companies are expected to report combined sales in the current fiscal year, which ends July 31, of $2.7 billion and operating income, before corporate expenses, of slightly over $200 million.

G&W said it expected to realize a substantial gain from the sale.

Wickes, a Santa Monica, California-based company whose main businesses has been in lumber and building supplies, said it would finance the purchase through bank borrowings, a private placement of debentures and convertible preferred shares, and proceeds from a recent $533-million common stock offering.

Over the last 16 months, G&W has made several acquisitions aimed at bolstering the company's presence in publishing and related fields.

The acquisitions included Esquire Inc., a magazine publisher, *and Pentice-Hall and Ginn & Co.*, which both publish textbooks and other educational material. Among G&W's other holdings are Simon & Schuster, the publishing house, Paramount Pictures and Madison Square Garden Corp.

As part of the restructuring program, the company has shed its holdings in sugar, zinc, chemicals, building products, energy, racetracks and manufacturing.

Last October, G&W reported that operating net totaled $74.2 million, up 13 percent from $65.6 million in the previous year. The group's sales amounted to $1.13 billion, up 19 percent.

But more recently, G&W posted a fall in 1985 first-half net to $103.2 million, 31 percent down on the $149.6 million posted in the year-earlier period. Sales totaled $2.1 billion, 5 percent up from 2.0 billion the previous year.

Wickes had net of $9.7 million last year, on sales of $3.03 billion.

Singapore Is World's Busiest Port

Harbor Now Attracts More Shipping Than Rotterdam

AP/Singapore Ministry of Culture

Singapore's rise as a port is partly attributed to Prime Minister Lee Kuan Yew's policies.

United Press International

SINGAPORE — Singapore has overtaken Rotterdam as the world's busiest port in terms of shipping and is making a sustained effort to attract more cargo traffic, officials say.

The Port of Singapore Authority declines comment on its status. But officials said a comparative study of statistics from both ports confirms that Singapore now hosts more shipping than any other port in the world.

Last year, the statistics show, ships totaling 527 million gross registered tons called at Singapore, compared with 421.6 million tons at Rotterdam.

Yokohama in Japan assumed third position with more than 350 million tons. Fourth place was held by New York City.

A spokesman for the Netherlands Embassy in Singapore confirmed that Singapore was the world's busiest port in tonnage, but said that Rotterdam still handled more cargo annually.

The Dutch port handled 243.4 million tons of cargo last year compared with Singapore's 111.9 million tons.

The spokesman said Rotterdam's principal cargo was crude oil, with an average annual tonnage of 110 million in the 1980s. Others include ores and metals, solid fuels, mineral oils, animal fodder, chemicals, oil seeds, edible oils and cereals.

Singapore's improved performance was largely due to the economic recovery in the United States that caused an increase in containerized cargo, which grew by 18 percent to 22.1 million tons last year.

Other cargo handled by the port is mainly grain, vegetable oil and cement.

Lim Kim San, chairman of the port authority, said that over the next few years, "we will concentrate on maintaining our position as a major world port by the use of computer technology and the automation of port operations."

He said: "Some of our productive gains will be passed to port users through competitive pricing of port services.

"Towards this end, adjustments will be made to our port tariff in 1985 to make it even more attractive for shipping lines to call here."

Singapore already has the third largest oil-refining and distribution centers in the world after Rotterdam and Houston. It houses the world's third-largest shipbuilding and ship-repairing industries.

The port, which covers 36 square miles (93 square kilometers) has nine container berths. Based on present trends in cargo growth, there will be sufficient capacity in its terminals to meet anticipated demand until the 1990s.

Unlike Rotterdam, Singapore does not enjoy the full benefits of its hinterland.

The spokesman for the Netherlands Embassy said Rotterdam was deepening its 30-mile (48-kilometer) channel to receive bigger vessels and was engaged in other projects to extend its services to vessels calling at the port.

The Singapore port has budgeted $128.5 million for capital expenditure this year. In addition, an imposing $125-million port building is being erected and will be ready for use next year.

The modern-day settlement of Singapore dates from 1819, when Sir Stamford Raffles landed on

(Continued on Page 17, Col. 6)

Reagan Tax Plan Is Seen Having Negative Impact

By James Sterngold
New York Times Service

NEW YORK — Economic forecasters examining President Ronald Reagan's tax proposals have drawn far less optimistic conclusions about the plan's potential impact on the economy than the White House has suggested.

Based on their preliminary computer runs, several leading forecasting companies have concluded that economic activity could fall by one percentage point in the first year, a significant drop for an economy that some expect to grow by only 2 to 3 percent. The growth rate is expected to revive in later years, but, at best, the tax plan is seen as neither helping nor hindering the economy overall.

Treasury Secretary James A. Baker 3d said last week that the proposals would increase the gross national product, a measure of the economy's total output, by 1½ percent by 1995, but did not indicate what might happen between now and then. Although Mr. Baker is to appear Tuesday before the Senate Finance Committee, the Treasury is not expected to provide more extensive forecasts for several weeks.

The biggest drag on growth, according to the forecasters, is the large increase in corporate taxes in the president's plan and the removal of some major investment incentives. The corporate tax increase stands in contrast to the personal tax cut the plan would hand Americans. The Treasury estimates that corporations would pay $26.1 billion more in federal taxes in 1987, for example, while individuals will find their aggregate tax bill cut by $26 billion.

That bite out of corporate profits and the crimp that the proposals would put on investment are likely to put a damper on the general economy, the economists said, only partly countered by an expected increase in consumer spending.

Their models show that gains in economic efficiency would improve the growth prospects in later years, but they say that even then the improvements will be far from dramatic. Thus, they say, the prospect is for an economy with the balance shifting toward service industries from more capital-intensive industries, but with little change in expected growth rates.

Some economists also fear that by removing the incentives for heavy industries — such as steel, autos and petrochemicals — to invest in new plants and machinery, the tax plan could erode the already waning international competitiveness of major industries. This would force unemployment higher.

"Whether the proposals would generate more economic growth is questionable," concluded Allen Sinai, chief economist for Shearson Lehman Brothers Inc. "Though difficult to fully detail yet, the net result is probably a 'growth neutral' set of tax proposals — more positive than the anti-growth tone of the original Treasury plan, but not likely to produce the 'millions' increase in employment referred to by the president."

Chase Econometrics projects a GNP growth rate of 2.4 percent in 1986 without the plan, and says that would fall to only 1.3 percent with the proposal in effect. That view is echoed by Michael Evans, president of Evans Economics, who said that he foresees the growth rate falling to 1 percent from mid-1986 to mid-1987 if the plan were enacted, compared with 2 percent without it.

A side-effect of this contraction, they said, would be a small rise in the unemployment rate. Later, however, growth would pick up.

"Our early work suggests that, in terms of real economic growth, the proposals are a net wash, neither helping nor hurting overall," said George Schink, vice president of research and development for Wharton Econometric Forecasting in Philadelphia. "But it does pose some serious potential problems, which made our overall conclusion slightly negative."

Falling Loan Charges Benefit Eastern Europe

By Carl Gewirtz
International Herald Tribune

SYNDICATED LOANS

PARIS — International banks demonstrated afresh last week that their lending capacity far exceeds demand for loans, resulting in a continued narrowing of loan charges.

The Eastern bloc is the latest beneficiary of this trend. Although charges have fallen sharply, they still are more generous than those paid by the industrialized countries and lenders are clamoring to get in on the deals.

But even the low-cost loans of the Western countries are being squeezed. Sweden, for example, is renegotiating lower the terms on a $1.5-billion deferred notes purchase facility arranged last year. That facility was designed to back up the sale of floating-rate notes in New York which gave investors the right to request redemption after one year.

Almost none of that paper has been redeemed, so Sweden is widening the scope of the facility to a general purposes backup credit at the same time it is readjusting the cost.

The new structure will enable Sweden to use it to back the sale of commercial paper in New York by providing a so-called swing line allowing same-day drawings. In addition, two tender panels will be created to bid for short-term Euronotes.

One will be a general panel, invited to bid for one-, three- or six-month notes. The other is a specialized panel, which can propose odd maturities starting with seven days or longer. In this case, banks can propose a specified rate of interest rather than linking the cost to the London interbank rates.

The commitment fee Sweden will pay banks for standing ready to lend has been halved to 1/16 percent, or 6.25 basis points, from the ⅛-percent charged on the original seven-year facility. The maturity is unchanged, meaning the new terms will run for six years.

Pricing on the original credit was pitched to appeal to banks operating in the United States with Sweden paying 60 basis points over the rate for certificates of deposit. The new structure is expected to appeal to a wider group of lenders as the pricing opens the way for banks who fund themselves in the Eurodollar market.

Lenders are given the option of charging Sweden 35 basis points over the rate for certificates of deposit, subject to a floor of Libor plus 20 basis points, or 22.5 basis points over Libor. The charge on the swingline, which can be drawn for up to 10 days, is set at ⅜-point over the New York interbank offered rate, or 55 basis points over the CD rate, or the prime rate of Chase Manhattan, which is organizing the renegotiation.

Overall, the fees are modestly

(Continued on Page 15, Col. 2)

U.K. Airline Cancels Airbus

Reuters

LONDON — British Caledonian Airways plans to sell its two new European A-310 airbuses and has canceled an order for a third, a company spokesman said Sunday.

In addition, the company will not be taking up the option it had on three other A-310s. But the spokesman said there was no question of a separate order for seven A-320 short-haul Airbuses being canceled.

The A-310 is built by Airbus Industrie, a consortium of French, West German, British and Spanish companies. The spokesman said the airline had no complaints about the aircraft's performance.

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

United States

	Last Wk.	Prev. Wk.	Ch'ge
DJ Indus.	1,316.42	1,315.41	+0.76 %
DJ Util.	163.88	163.32	+0.18 %
DJ Trans.	653.45	645.16	+1.30 %
S & P 100	183.68	184.08	—0.21 %
S & P 500	189.67	189.55	+0.06 %
NYSE Co.	109.97	109.63	+0.27 %

Source: Prudential/Bache Securities.

Britain

FTSE 100	1,310.60	1,310.90	—0.02 %
FT 30	1,001.60	998.20	+0.34 %

Hong Kong

Hang Seng	1,542.55	1,613.87	—4.42 %

Japan

Nikkei DJ	12,716.59	12,758.46	—0.33 %

West Germany

Commerzbk	1,363.40	1,321.50	+3.17 %

Source: James Capel & Co. London.

Money Rates

	Last Wk.	Prev. Wk.
United States		
Discount rate	7½	7½
Federal funds rate	7 9/16	7½
Prime rate	10	10
Japan		
Discount	5	5
Call money	6 3/16	6 1/16
60-day interbank	6¼	6¼
West Germany		
Lombard	6	6
Overnight	5.50	5.90
1-month interbank	5.60	5.50
Britain		
Bank base rate	12½	12½
Call money	12¾	11
3-month interbank	12½	12½

Dollar

	Last Wk.	Prev. Wk.	Ch'ge
Bk Engl Index	N.A.	145.30	— %
Gold			
London p.m. fix. $	314.30	314.00	+0.09 %

Rate and gold data from Citibank & from James Capel.

Currency Rates

Cross Rates June 6

	$	£	D.M.	F.F.	H.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	3.4415	4.376	112.765 *	36.98 *	0.1766 *	—	5.596 *	134.155 *	138.74 y
Brussels(a)	61.515	78.15	20.1425	6.605	3.155 *	17.8705	—	23.962	24.80 *
Frankfurt					Closed				
London (b)	1.2715	—	3.8883	11.8378	2,480.00	4.3885	78.255	3.2453	315.925
Milan	1,951.20	2,478.10	638.70	209.42	—	566.90	31.727	759.73	7.862
New York(c)	—	0.7843 #	3.056	9.33	1,951.50	3.446	61.58	2.572	249.10
Paris	9.317	11.835	3.0505	—	4.776 x	2.7057	15.1375 *	3.6275	3.7567 *
Tokyo	249.10	315.85	81.51	26.74	12.78 *	72.27	404.84 *	97.03	—
Zurich	2.5685	3.2595	84.06 *	27.56 *	0.1316 *	74.58 *	4.1735 *	—	1.0249 *
1 ECU	0.734	0.5777	2.2405	6.833	1,431.64	2.5267	45.1474	1.8843	181.978
1 SDR	0.997111	0.78513	N.Q.	9.29008	1,945.96	3.4316	61.3373	2.5598	248.281

Closings in London and Zurich, fixings in other European centers. New York rates at 4 P.M.
(a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000 N.Q.: not quoted; N.A.: not available.
(#) To buy one pound: $U.S.1.275

Other Dollar Values

Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$
Argen. peso	617.36	Fin. markka	6.2924	Malay. ring.	2.4615	S. Kor. won	873.75
Austral. $	1.5232	Greek drac.	135.09	Mex. peso	271.00	Span. peseta	174.10
Austr. schil.	21.52	Hong Kong $	7.774	Norw. krone	8.816	Swed. krona	8.8575
Belg. fin. fr.	61.88	Indian rupee	14.27	Phil. peso	18.4445	Taiwan $	39.77
Brazil cruz.	5,540.00	Indo. rupiah	1,117.00	Port. escudo	174.50	Thai baht	27.325
Canadian $	1.3701	Irish £	0.9794	Saudi riyal	3.61	Turkish lira	527.65
Danish krone	10.96	Israeli shek.	1,071.00	Sing. $	2.216	UAE dirham	3.6725
Egypt. pound	0.7463	Kuwaiti dinar	0.3027	S. Afr. rand	1.992	Venez. boliv.	13.00

£ Sterling: 1.2399 Irish £

Sources: Banque du Benelux (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham). Other data from Reuters and AP.

Judge Stops All Withdrawals At Troubled Old Court Thrift

United Press International

ANNAPOLIS, Maryland — A Baltimore judge has blocked withdrawals from Old Court Savings & Loan for 90 days and lowered all interest rates to 5½ percent to stave off the possible failure of the institution.

Circuit Judge Joseph H.H. Kaplan also directed Chevy Chase Savings & Loan, with $2.2 billion in assets, to direct Old Court's day-to-day operations and to send in a management team to evaluate the thrift's assets.

Judge Kaplan acted Friday at an emergency hearing called when it became apparent that Old Court could lose $25 million to $55 million in cash outflows in the next 30 days. The privately held institution has no way to raise funds.

The announcement last month of serious management problems at Old Court sparked a run on Maryland's 102 privately insured thrifts. Governor Harry Hughes declared a state of financial emergency and limited withdrawals to $1,000 a month.

John Faulkner, the court-appointed conservator for Old Court, testified that the withdrawal limit would have to be tightened in order to protect the thrift's 72,000 account holders.

Mr. Faulkner also said that the newly created Maryland Deposit Insurance Fund had already lent Old Court $60 million and that the savings and loan had very little collateral left. The Federal Reserve Board also has been shoring up Old Court.

"There is little or no ability for Old Court to get funds from any other source," Judge Kaplan said in issuing the order. "We need to know exactly the status of Old Court. There isn't any question the records there are in poor shape."

David Freishtat, an attorney representing Jeffrey A. Levitt — who owns 41 percent of Old Court — argued that appointing Chevy Chase to evaluate Old Court's assets and properties would constitute a conflict of interest.

Judge Kaplan rejected that argument, saying that since Old Court was in conservatorship, it was not in competition with Chevy Chase.

Proposal for New Global Trade Talks Meets Snags

By Axel Krause
International Herald Tribune

STOCKHOLM — Trade and finance ministers from about 20 industrialized and developing nations met here Sunday to discuss the organization of new global trade negotiations, but were reported to have made scant progress.

Officials said that the ministers had failed to agree on issues to be placed on the agenda of a preparatory meeting that could be held some time this year. The main negotiations, which would be held under the auspices of the General Agreement on Tariffs and Trade, would be held in 1986.

But one European minister said that there had been "rapprochement" between industrialized countries and some developing nations, particularly with regard to organizing a meeting of senior trade officials to prepare the negotiations.

Mats Hellström, Sweden's minister for foreign trade and host of the two-day meeting, said that the meeting had been "non-confrontational." But he refused to comment on Sunday's progress, saying that he was still trying to "build bridges."

India's minister of finance, Vishwanath Pratap Singh, said that his nation and 22 other developing countries who belong to GATT would continue to resist placing liberalization of services on the agenda.

The United States, Japan and members of the European Community have sought to have trade in services and high technology placed on the agenda. But the developing nations have said those areas benefit only industrialized nations and they want the talks to focus on goods.

In a paper submitted to GATT last week in Geneva, a group led by Brazil and India said it was skeptical about starting new trade talks unless industrialized nations first made strong commitments to reduce their trade barriers to Third World products such as textiles.

"I do not think that much will come out of this meeting, given the current divisions," said James Kelleher, Canada's minister of international trade.

International Bond Prices - Week of June 6

Provided by Credit Suisse First Boston Securities, London, Tel.: 01-623-1277
Prices may vary according to market conditions and other factors.

(Continued from Page 12)

Amt	Security	%	Mat	Middle Price	Yield Mat	Yield Avg Life	Yield Curr
$ 150	Ralston Purina	11⅝	'95 May	106¾	10.67		11.85
$ 14	Reliance Transcontine	6¼	'88 Feb	83	14.24	14.40	7.53
$ 100	Rexsteel O/s Finance	11⅝	'88 Jul	94	14.01		12.23
$ 125	Revlon Intl Finance	11	'90 Jul	104¼	9.89		10.55
$ 60	Reynolds Metals Europ	16½	'87 Mar	106	12.52		15.57
$ 100	Reynolds RI O/s	12¾	'89 Oct	105	11.18		12.14
$ 20	Richardson-Merrell	8¼	'85 Dec	99½	9.56	9.54	8.29
$ 125	Richardson-Vicks O/s	11½	'93 Jun	102	11.10		11.27
$ 100	Rockefeller Group	13¾	'89 Jan	106⅝	11.08		12.41
$ 30	Santa Fe Intl	9½	'86 Jul	99½	9.95	9.98	9.55
$ 20	Scott Paper O/s	8¾	'86 Jul	99½	9.23	9.39	8.79
$ 100	Sears O/s Finance X/w	13⅞	'88 May	106½	11.15		13.03
$ 125	Sears O/s Finance	11½	'88 Nov	105½	9.53		10.90
$ 50	Sears O/s Finance	11¼	'89 Jan	102	10.57		11.03
$ 150	Sears O/s Finance	11⅝	'91 Feb	107	9.92		10.86
$ 150	Sears O/s Finance	10½	'91 Aug	101½	10.15		10.34
$ 150	Sears O/s Finance	11⅝	'93 Oct	107⅝	10.16		10.78
Y 12500	Sears Roebuck Co	6⅞	'91 Nov	101¾	6.52		6.76
$ 100	Security Pacif Nat Bk	10⅝	'87 Feb	101¼	9.65		10.25
$ 100	Security Pacif Nat Bk	11⅝	'88 Dec	104¾	10.04		11.22
$ 100	Security Pacif O/s Fl	10½	'88 Jun	101⅞	9.95		10.36
$ 100	Security Pacif O/s Fl	12	'92 Mar	106½	10.58		11.27
$ 100	Shearson Americ Expre	12¾	'94 Mar	104	11.34		12.26
$ 125	Signal Companies	11¾	'92 Feb	104	10.85		11.30
$ 75	Society For Savings	11⅜	'90 Feb	102	10.78		11.15
$ 50	South Californ Edison	14¾	'88 Jul	101½	14.09		14.53
$ 75	South Californ Edison	15	'89 May	105	13.25		14.29
$ 75	South Californ Edison	10½	'90 May	99½	10.67		10.55
$ 75	South Californ Edison	11⅛	'98 Nov	103	10.78		11.17
$ 100	South Californ Edison	11	'92 Jun	101¼	10.74		10.86
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FOREIGN TARGETED BONDS OF THE US TREASURY AND OF ITS AGENCIES

DM STRAIGHT BONDS

AUSTRALIA

AUSTRIA

BELGIUM

CANADA

CHINA

DENMARK

FINLAND

FRANCE

GERMANY

ICELAND

IRELAND

ITALY

JAPAN

ZERO-COUPON BONDS

Security	Final Maturity	Original Offerings Amt	Original Offerings Year	Offered Price
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LUXEMBOURG

MEXICO

MISCELLANEOUS

NETHERLANDS

NEW ZEALAND

NORWAY

PORTUGAL

SOUTH AFRICA

SOUTH AMERICA

SPAIN

SUPRANATIONAL

SWEDEN

SWITZERLAND

UNITED KINGDOM

UNITED STATES AMERICA

CONVERTIBLE BONDS

Amt	Security	%	Mat	Mid. Price	Conv. Period	Conv. Price p/sh	Curr Conv. Yld Prem.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EUROPE

JAPAN

MISCELLANEOUS

UNITED STATES AMERICA

HIGHEST CURRENT YIELDS

On convertibles having a conversion premium of less than 10%.

Explanation of Symbols

CN	Canadian Dollar	SDR	Special Drawing Rights
ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
£	Pound Sterling	SF	Swiss Franc
DM	Deutsche Mark	FF	French Franc
NKD	Norwegian Kroner - DM		

New Eurobond Issues

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
Barclays Bank	$600	perpt	¼	100	99.26	Over 6-month Limean. Callable at par in 1990. Fees 0.675%. Denominations $10,000.
Banque Int'le Pour l'Afrique Occidentale	$ 50	1995	¼	100	—	Over 6-month Libor. Redeemable at par in 1992. Callable at par in 1990. Fees 0.80%.
Christiana Bank Kreditkasse	$ 75	1995	⅛	100	99.97	Over 6-month Libor. Callable at par on any interest payment date after 1986. Fees ½%. Denominations $10,000. $56 million issued now and $19 million reserved for tap.
Comerica	$ 75	1997	⅛	100	99.80	Over 3-month Libor. Callable at par on any interest payment date after 1988. Redeemable at maturity in cash and/or company stock or other capital securities, unless issuer opts, prior to June 1989, for cash redemption. Fees 1¼%.
Copenhagen Handelsbanken	$100	2000	1/16	100	99.65	Over 6-month Libor. Callable at par in 1988. Fees 0.35%.
Crédit Lyonnais	$300	2000	1/16	100	99.90	Over 6-month Libor. Callable at par in 1990. Fees 3/16%.
Iceland	$125	2000	⅛	100	99.82	Over 6-month Libor. Redeemable at par in 1995 and 1997. Callable at par in 1988. Fees ¼%.
Oesterreichische Volksbanken	$ 50	1995	⅛	100	—	Over 6-month Libor. Callable at par in 1987. Fees ½%.
Ireland	DM 500	1997	⅛	100	99.80	Over 6-month Libor for first 8 years and 1/16 over for the remainder. Callable at par in 1990. Fees 0.14%.
FIXED-COUPON						
Atlantic Richfield	$250	2000	10¼	99¾	96.50	Callable at 101½ in 1997.
Denmark	$100	1992	10½	100¼	97.75	Callable at par in 1990. 15¼% payable on subscription and balance in July 1986.
EdF	$125	1995	10	99½	97.50	Callable at 101 in 1992.
Escom	$100	1991	11½	100	98.13	Noncallable.
Ford Motor Credit	$100	1990	9½	99¾	96.63	Noncallable.
Marubeni Finance	$100	1995	zero	39.15	36.90	Yield 9.83%. Noncallable. Proceeds $38.7 million. Denominations $10,000.
Nippon Credit Bank	$150	1995	10⅜	100	99.25	Noncallable.
Nippon Kokan	$ 50	1990	10	100⅜	99.88	Noncallable.
Seagram Ltd	$100	1995	10	100	97.50	Callable at 101 in 1992.
Sonat Finance	$100	1992	11⅛	100	101.38	Callable at 101 in 1990.
Raufoss Ammunisionsfabrik.	DM 30	1995	7⅜	99½	—	Callable at 101½ in 1992. Private placement.
GMAC U.K. Finance	£ 30	1990	10½	100	—	Noncallable.
Creditanstalt Bankverein	ECU 67.5	1994	8⅝	100⅜	98.50	Noncallable.
Crédit National	ECU 50	1995	8⅝	100	98.50	Noncallable.
Mitsui Trust Finance	ECU 60	1993	8⅝	100½	97.75	Noncallable.
Buhrmann-Tetterode	DF 50	1990	7¼	99½	99.00	Noncallable private placement.
Australian Industry Development Corp.	Aus$ 40	1988	12⅝	100⅜	99.13	Noncallable.
Chrysler Financial	Aus$ 45	1992	13⅝	100¼	97.75	Noncallable.
Finance Corp. of New Zealand	Aus$ 25	1990	14	100¼	—	Noncallable.
Security Pacific Australia	Aus$ 60	1995	13⅛	100¼	98.25	Callable and redeemable at par in 1990 when new terms will be set.
Danish Export Finance Credit	NZ$ 40	1990	16⅛	100	98.13	Noncallable.
Denmark	NZ$ 75	1990	16	100	—	Noncallable.
KB Ifima	NZ$ 50	1990	16⅜	100	98.13	Noncallable.
Swedish Export Credit	NZ$ 50	1990	16	100¼	—	Noncallable.
Norske Industribank	NK 200	1993	10	open	—	Callable at 101½ in 1990.
EQUITY-LINKED						
Isetan	$ 20	2000	3¼	100	—	Semiannually. Callable at 103 in 1990. Convertible at 614 yen per share.
Nippon Kangyo Kakumaru Securities	$ 50	2000	open	100	98.25	Coupon indicated at 3%. Callable at 103 in 1990. Convertible at an expected 5% premium. Terms to be set June 13.
Nippon Mining	$ 50	1990	open	100	100.00	Coupon indicated at 7¼%. Noncallable. Each $5,000 note with one warrant exercisable into shares at an expected 2½% premium. Terms to be set June 13.
Thomson-CSF	$ 75	2000	open	100	—	Coupon indicated at 6½-7%. Callable at 104 in 1988. Convertible at an expected 8-10% premium. Terms to be set June 10.

U.S. Rates Unsettle Eurodollar Trade

(Continued from Page 13)

appeal to investors who expect the dollar to decline by asking for only 15¼ percent of the purchase price to be paid immediately and the balance in July, 1986. The notes are offered at a price of 100¼ bearing a coupon of 10½ percent.

Also tapping the market last week were Sonat Finance, guaranteed by Southwest Natural Gas; Nippon Credit Bank Ltd., and Nippon Kokan K.K.

On Friday, Marubeni Finance NV, an offshore subsidiary of the big Japanese trading company, offered $100 million of 10-year, zero-coupon bonds — the first from a Japanese-owned entity. Investors are asked to pay 39.15 percent of the face value, or $3,915 for paper which will be redeemed at maturity for $10,000. This is the equivalent of earning 9.83 percent a year.

At the time the terms were set, that return was spot on the yield of U.S. Treasury paper. But as Treasury yields rose, the price on Marubeni sank, ending the day down 2¼ points. The bonds, guaranteed by Fuji Bank Ltd., are not readily saleable in Japan as the issuing company is not Japanese.

One of the striking events of last week was the rush of issues denominated in high-coupon Australian and New Zealand dollars. The high coupons appeal to speculators who are willing to bet that the inherent weakness of the currencies will be offset when the dollar goes into its expected tailspin.

An array of maturities was available in Australian dollar paper.

Three-year notes (40 million dollars) were offered by Australian Industry Development Corp., priced at 100⅜ with a coupon of 12⅝ percent. Finance Corp. of New Zealand, guaranteed by Briarly Investments Ltd. of New Zealand, offered 25 million dollars of five-year, 14-percent notes at a price of 100¼.

Security Pacific Australia Ltd. offered 60 million dollars of 10-year bonds at 100½ bearing a coupon of 13⅛ percent. But for all practical purposes this is a five-year issue as it is callable by the issuer or redeemable by holders after five years, at which time the issuer can set new terms. (Both this issue and AIDC are payable in U.S. dollars at a rate to be set three days before payment. Interest and principal payments by the issuers will be converted to U.S. dollars as the issuers are Australian and subject to domestic exchange controls.)

Chrysler Financial Corp. offered 45 million of seven-year notes at 100¼ bearing a coupon of 13⅝ percent. However, the terms were viewed as too aggressive, especially in light of the fact that the issue is subordinated debt.

Overall, however, bankers admitted that placement of the paper was made difficult by the overabundant supply.

For what bankers call "rate hogs," the New Zealand dollar offerings — all with five-year maturities — were more attractive as they bear coupons of 16 percent or more. Swedish Export Credit Corp. sold at 100¼, 50 million dollars of 16-percent notes, Denmark offered 75 million dollars with a coupon of 16 percent, Danish Export Finance Credit offered 40 million dollars with a coupon of 16⅛ percent, and Kredietbank NV's KB-Ifima, 50 million with a coupon of 16⅜ percent.

For more conservative investors, the European Currency Unit remained the preferred vehicle. Although coupon levels have been declining, the yields of 8⅝ percent on eight-to-10-year paper are more attractive than the alternatives in Deutsche marks or guilders. Creditanstalt-Bankverein of Austria and Crédit National of France were the best received, while Mitsui Trust Finance traded outside its total commissions.

Lower Loan Rates Benefit East European Borrowers

(Continued from Page 13)

lower than on Sweden's existing $4-billion note facility.

Elsewhere, East Germany scored a big success enabling it to triple the amount of its syndicated bank credit to $600 million from the $200 million initially announced. In addition, only a small fraction of about 13 percent, or $80 million, has been priced over the prime rate of U.S. banks compared with the expected split of 60-percent Libor/40-percent prime.

Few borrowers pay such relatively high rates these days, even though for the East Germans the costs represent a ⅛-point cut from previous loans, which explains the great success.

Hungary also scored big. Demand to participate in its $300-million, eight-year loan — a co-financing with the World Bank — was such a success that the overflow is being packaged as a separate loan. This was necessary as the co-financed operation could not be increased. The parallel loan will carry identical terms, eight years at ⅝-point over Libor, and is expected to total $150 million.

Both Hungary and East Germany arranged their terms before it became apparent that lending charges for Eastern Europe were collapsing. This was made evident by Czechoslovakia's split margin of ¼-point over Libor for the first two years and ⅜-point over for the final six years. That $100-million loan was more than two times oversubscribed, but will not be increased.

Bulgaria also benefited from the downtrend, setting a margin of ⅜-point over Libor for the first four years and ½-point over for the final three years.

Czechoslovakia and Bulgaria benefited from having been out of the market for a long time and being relatively light borrowers. In addition, these are believed to be their only borrowings for this year.

Hungary and East Germany are bigger debtors and borrow larger sums, making more questionable how much further the margins on their loans can be cut. Nevertheless, insiders say Hungary has been offered terms of ⅜-point to ½-point over Libor.

From the Mideast, Al UBAF Arab International Bank in Bahrain is tapping the market for a $30-million, three-year revolving underwriting facility. The bank will pay an annual fee of 15 basis points and underwriters agree to buy its CDs at a margin of 20 basis points over three- or six-month Libor.

Credit Commercial de France is arranging a seven-year facility for as much as to $200 million. It is paying an annual fee of 10 basis points and underwriters agree to buy its CDs or provide short-term advances at a price of 10 basis points over Libor. If less than one-third of the facility is used, CCF pays an additional utilization fee of 10 basis points. This increases in five-point steps if as much as two-thirds is drawn and if as much as 100 percent is used.

A major development in the market is expected this week, when Banque Nationale de Paris launches an operation designed to turn the backup commitment of underwriting banks into marketable securities.

Jobs Figures Prompt Rise In Major Interest Fees

By Michael Quint
New York Times Service

NEW YORK — Interest rates have risen sharply after the Commerce Department announced a larger-than-expected increase in the number of employed workers during May.

Although many economists still said that lower rates were likely this

U.S. CREDIT MARKETS

summer, the employment statistics reported on Friday punctured the ebullient mood of the credit markets.

Prices fell Friday by a point or more for all Treasury issues with maturities longer than five years, with 30-year bond prices dropping by 2 points to raise yields to 10.53 percent from 10.32 percent. Treasury-bill rates rose more than a quarter of a percentage point in many cases.

The employment statistics — particularly the increase of 345,000 workers on non-farm payrolls — were seen as a sign that the economy was not so weak as expected, and that the Federal Reserve therefore had less immediate reason to ease monetary policy and encourage lower interest rates.

"It looks like we're not going to get the discount rate cut as soon as some folks were betting, but a lot of people are still going to get their profits from this rally and there as been a lot of unloading" by traders and other speculators, one government securities dealer said.

Although the number of jobs in manufacturing declined for the fourth consecutive month, economists said the drop of 28,000 was not enough to offset the sharp gains in service employment. Analysts at R.H. Wrightson, a New York economic analysis firm, concluded that the employment data were "probably robust enough to keep Fed policy on hold awaiting further second-quarter data."

In the Treasury bond market, the bellwether 11¼-percent issue due in 2015 was offered at 106½ to yield 10.53 percent, down from a peak price of 109 30-32 to yield 10.17 percent in Wednesday morning's feverish trading, but still well above a May 30 quote of about 104 30-32 to yield 10.69 percent. On March 14, when interest rates were at about their highest levels of this year, the 11¼-percent bond was offered at 95¼ to yield 11.83 percent.

Rates on Treasury bills rose sharply as traders decided that overnight interest rates were not likely to fall immediately to 7¼ percent or less. The overnight rate for bank loans was slightly over 7½ percent Friday, down from the 7.67 percent average for the last two weeks, but that decline was of little importance to traders who estimate that bill rates must be well above 7 percent as long as the overnight rate is above 7½ percent.

By late in the day, three-month Treasury bills were bid at 7.17, up from 6.99 percent, while the six-month bill was bid at 7.29 percent, up from 7.01 percent.

U.S. Consumer Rates
For Week Ended June 9

Passbook Savings	5.50 %
Tax Exempt Bonds — Bond Buyer 20-Bond Index	8.60 %
Money Market Funds — Donoghue's 7-Day Average	7.75 %
Bank Money Market Accounts — Bank Rate Monitor Index	7.28 %
Home Mortgage — FHLB average	13.70 %

Consolidated Trading Of NYSE Listing
Week ended June 7

	Sales	High	Low	Last	Ch'ge
NobscB	8,411,300	82	81	81½	—½
BnkAm	8,276,800	22	19¼	20	+1½
MidSUt	7,575,400	14½	13¾	13⅞	+⅛
DiamS	7,038,800	17⅝	15⅛	16	—1¾
IBM	6,465,600	130	127	127⅞	—1¼
FordM	6,028,500	45⅞	43	45½	+2
PacGE	5,860,600	20⅛	19¾	20	+⅛
Litton	5,766,500	87¼	84	86⅛	+1⅛
AtlRich	5,510,000	60⅛	59	59	—1⅝
Exxon	5,488,600	54⅛	49⅞	50	—4
ATT	5,120,100	24	23⅛	23⅞	+⅜
SFeSoP	5,118,400	31¼	29⅝	30¼	+⅜
MerLy	5,065,400	32⅜	31⅜	32	
GMot	5,013,400	75⅛	70⅝	74½	+2⅝
OccPet	4,603,000	34¾	30⅝	34	+3¼
AmExp	4,464,200	47½	46¾	46⅞	+⅜
UAL	4,401,700	56½	54	54¼	+⅜
PhlbrS	4,388,000	42⅜	41¼	41⅜	+¼
Sperry	4,319,200	55½	50⅝	54⅞	+3
Sears	4,293,200	39⅛	37⅝	37¾	—⅞

Issues Traded in: 2,255
Advances: 1,296 ; declines: 764
unchanged: 195
New highs: 645 ; new lows: 57

Volume

This week	601,100,000 shares
Last week	429,610,000 shares
1984 same week	414,980,000 shares
1985 to date	11,936,074,757 shares
1984 to date	10,168,360,000 shares
1983 to date	9,818,190,000 shares

Consolidated Trading Of AMEX Listing
Week ended June 7

	Sales	High	Low	Last	Ch'ge
BATIn	7,812,000	4⅞	4	4⅛	+⅛
WangB	4,195,900	17⅛	15	16	—⅞
DomeP	830,700	2⅝	2⅜	2⅜	—¼
DataPd	780,200	11½	10⅝	11½	+⅝
AM	642,700	4⅜	3⅞	4⅜	+⅜
TIE	560,200	6⅛	5¼	5⅜	—⅜
Amdahl	548,200	13⅝	12¼	12⅜	—1⅛
AMBId	474,300	2⅜	2	2⅜	+½
GHCd	465,400	13¾	12⅜	12½	—1¼
AExp	417,000	40	38⅛	38⅝	+¾

Volume: 39,250,000 shares
Year to Date: 936,590,000 shares
Issues traded in: 910
Advances: 381 ; declines: 375
Unchanged: 154
New Highs: 137 ; new lows: 36

Poll Finds Americans Distrust Business Executives

By Adam Clymer
New York Times Service

NEW YORK — For years, capitalists have been trusted far less than the free enterprise system they run, but much of the public's distrust was based on the principle of caveat emptor, or let the buyer beware.

Today, the distrust of corporate executives goes far deeper. The consensus is that most are not honest, that white-collar crime is frequent, that most such criminals get away with their crimes and that those who are convicted receive lenient punishment.

Those findings from the latest New York Times-CBS News Poll drew sharply conflicting reactions from business-watchers, both inside and outside the corporate community.

Richard Lesher, head of the Chamber of Commerce of the United States, shrugged off the findings, saying the press had overplayed recent indictments and thus had "conditioned that reaction" from the public. There are "12 million corporations in the United States and a couple of dozen that are convicted of some kind of criminal activity" each year, he said.

But Rudolph W. Giuliani, U.S. attorney for the Southern District of New York, said he thought that "it's not unfair to come to the conclusion" the public reached. "Even if most businessmen wouldn't commit the kind of serious crime we prosecute, a great many violate the law in minor ways and cut corners," he said. "There's a serious ethical problem in American business."

The poll of 1,509 adults found that only 32 percent of the public thinks most corporate executives are honest, while 55 percent think most are not. The rest had no opinion. The telephone survey, conducted from May 29 through June 2, has a margin of sampling error of plus or minus three percentage points.

This finding was not uniform among all population groups, but nowhere could a majority be found for the idea that most executives are honest. The closest thing to a vote of confidence came from the groups most likely to contain many businessmen themselves. Of respondents with family incomes of more than $50,000, 49 percent said that most businessmen were honest while 43 percent disagreed. College graduates divided 47 percent to 43 percent for honesty.

The groups most suspicious of businessmen were blacks, only 18 percent of whom saw most executives as honest, with 62 percent disagreeing; Democrats, with 26 percent seeing honesty and 59 percent perceiving dishonesty; and women, with 27 percent seeing honesty and 59 percent disagreeing.

There was far less variation on the other questions. A national consensus seems to surround the issue of white-collar crime. Fifty-nine percent of the public said that white-collar crime went on very often, 34 percent thought it was an occasional occurrence, and 3 percent said hardly ever. Almost every population subgroup saw it pretty much the same way.

Eighty-five percent of the public said that most white-collar criminals get away with their crimes, while 11 percent thought most get caught. Just 23 percent thought the government was making enough of an effort to catch them, while 68 percent disagreed.

As to those who were convicted, 65 percent of the public believed their punishment was too lenient, 24 percent thought it was about right, and 1 percent considered it too harsh.

At least one other poll-taker said that he was greatly surprised by the blanket indictment of corporate executives and the system for punishing them. "I wouldn't have guessed those numbers within 20 to 25 percentage points," said Robert M. Teeter, president of Market Opinion Research.

E. Patrick McGuire, executive director for corporate relations research at the Conference Board, a New York business research organization, contends that polls typically find the public "misinformed" about business. The exaggerated public distrust of business honesty was thus "not particularly surprising," he said.

Nearly all observers interviewed, however, said that, whether the public's opinions are fair or not, corporate America would be wise to pay attention to them. The widespread mistrust, Mr. McGuire warned, could lead "to a regulatory environment that would be hostile to business." To prevent that, he said, business should go out of its way to make it clear to their own employees that unethical practices will not be tolerated.

Sweden Is to Let Foreign Banks Establish Units

Reuters

STOCKHOLM — The Swedish parliament has formally approved a bill which will enable foreign banks to start subsidiaries in the country from next year, a parliament spokeswoman said.

Under the terms of the law, overseas banks will have to set up retail-banking facilities and their Swedish subsidiaries must have a minimum share capital of 25 million krona ($2.8 million).

The law will permit foreign banks to deal in foreign exchange and securities and the government has said preference will be given to banks that have existing contacts with Sweden.

The contents of the bill, which was passed Friday by a big majority with only the communists dissenting, were announced last March.

Singapore Bank to Cut Rate

SINGAPORE — Overseas Union Bank Ltd. of Singapore said Saturday it will cut its prime lending rate to 8 percent from 8¼ percent, effective Tuesday.

NASDAQ National Market

			Sales in 100s	High	Low	Close	Net Ch'ge
A							
A&M Fd			221	6⅞	5¾	6⅛	+ ¼
ADC Tl			1418	19	15½	17½	+2
AEC	.32	3.2	66	10¼	10	10	— ⅛
AEL s			126	25	23¾	24½	
AFG			1607	21¼	20⅝	21	
ASK			5267	15¼	13¼	13¼	—1½
AST			8109	16⅞	14⅛	14½	—2¼
AT&E			1804	11⅞	10⅝	10⅝	— ⅞
ATE			29	3⅝	3⅜	3⅜	— ⅛
AgmRt			1213	23	22¼	22¾	+ ½
Abrams	.24	3.8	1	6¼	6¼	6¼	
Acadin	.20	2.5	651	8⅛	7¼	7⅞	
AcapRs			76	4⅝	4⅝	4⅝	— ¼
Acelrin			1392	10	9	9¾	+ ¼
AcuRay	.20	.9	2148	23¼	21¾	23	+1
Aceto s			15	16	15⅝	15¾	— ¼
ACMAT			15	8¾	8⅝	8⅝	— ⅛
AcmeG	.20a	1.3	56	15⅝	15⅝	15⅝	
Actvsn			3725	1	⅞	1	+ ⅛
Actmd s			1678	21	19	20¾	+1¼
AdacLb			2572	3⅝	3	3⅛	— ⅛
Adage			559	8	7¼	7½	— ¼
AdlanW	.70	2.5	46	28½	28	28	
Adia	.09e	.4	130	22¾	21½	21¾	— ¾
AdvCir			2284	9⅛	8	8⅞	+ ⅛
AdCat			196	4	3½	3⅝	— ⅛
AdvEn s			361		¼	¼	
AdvGen			437	3⅛	3¼	3½	— ⅛
AdvSem			502	12	11	11	— ½

American Exchange Options

For the Week Ending June 7, 1985

Ford Is Seen Using Taiwan Plant For Cars to Be Sold in North America

By John F. Lawrence and Sam Jameson
Los Angeles Times Service

CHUNG LI, Taiwan — In the past four years, wages at Ford's 70 percent-owned Taiwan factory have increased 64 percent, vastly improving the living standards of the 2,000 workers here. Yet the cost of production at this plant has dropped dramatically in the same period, thanks to a 139-percent increase in productivity.

John R. Fenner, president of Ford Lio Ho Motor Co., believes that is the answer to those who believe that Taiwan is about to lose its competitive advantage now that its $3,000 per-capita gross national product has propelled it out of the ranks of Asia's low-wage countries.

In fact, Ford is so confident of Taiwan's competitiveness that it is believed to be about to test this island nation's ability to produce cars for Canada and the United States.

Mr. Fenner has an answer, too, to skeptics recalling Taiwan's unfortunate reputation for production of cheap goods, sometimes of questionable quality.

Ford conducts an annual audit of all of its plants around the world, and Ford Lio Ho now ranks No. 1. Measured in terms of reduced factory rejects, quality has improved 795 percent in four years.

Things are changing fast in Taiwan, and the country's experience says a good deal about how many of the region's emerging economies, especially South Korea, are coping with their new prosperity, rising wage rates and growing international competition.

"Taiwan has the potential to be a supplier of low-cost subcompacts to the world," said John G. Parker, Ford Lio Ho's director of technical operations. "What is going on here now is an attempt to prove it."

Ford, which has been a partner with Lio Ho, a large car dealer, since 1972, is investing $40 million to double capacity to 90,000 from 45,000 motor vehicles while introducing robots and higher technology. By next year, the company plans to begin exports of about 30,000 passenger cars.

Although Detroit's Big Three automakers have committed themselves to buying Japanese-designed cars and have established or sought production bases for procurement of subcompacts in South Korea, only Ford has taken a firm step in that direction in Taiwan.

Mr. Fenner said that he has copied from Mazda Motor Co., Ford's partner in Japan, its "quality-control circles," where workers participate in decision-making.

Chinese workers in Taiwan, Mr. Fenner said, are younger and better educated than workers at Ford's factories in the United States. They have responded enthusiastically, making possible the impressive productivity gains.

U.S. Panel Posts Gain in Capital Appropriations

United Press International

NEW YORK — The Conference Board reported Sunday that capital appropriations — a leading indicator of capital spending — continued to gain in the first quarter, but at a much slower pace than a year ago.

Capital appropriations for the 1,000 largest manufacturers in the United States hit $30.5 billion for the first quarter of 1985, a 5-percent gain from the same period in 1984, the U.S. business-research organization said.

Durable-goods manufacturers had a 16-percent jump in appropriations, but manufacturers of non-durable goods posted a decline of 7 percent.

And while appropriations were up, actual capital spending slowed.

Jamaica Reaches Loan Agreement With IMF

Reuters

KINGSTON, Jamaica — Prime Minister Edward Seaga has said that his government has reached agreement with the International Monetary Fund for a new $120-million loan program to begin in August.

The 20-month program requires further cuts in the budget deficit, public spending cuts and tight control on credit, Mr. Seaga said Friday in a debate on a 1985-86 budget of 4.7 billion Jamaican dollars ($851 million).

The prime minister projected a 3.8-percent decline in Jamaica's gross domestic product in the 1985/86 fiscal year compared with a 0.4-percent drop in the year just ended.

He also promised to continue austere monetary policies, saying that any relaxation of those policies would lead to chaos. Critics of his government have proposed such measures as easing credit restrictions, lowering interest rates and reintroducing import controls.

Mr. Seaga said that many public-sector jobs would be lost this year following the reduction last year of 6,000 jobs. But he said that tax-reform measures would be introduced to Parliament in 1986 to ease the burden.

The prime minister said that the budget deficit had been cut to 7.2 percent of GDP from 17 percent and that the government hoped to reduce it to 4.0 percent in the next three years. GDP measures the total value of a nation's goods and services, excluding income from foreign investments.

There was a balance of payments surplus of 265 million dollars in the last fiscal year, compared with a shortfall of 312 million dollars in the previous period, he said.

Those positive economic performances, Mr. Seaga said, were due largely to increased government capital, mainly loans from the United States, to 387 million dollars from 164 million dollars in the 1983-84 fiscal year.

Additional private capital inflows last year brought in 178 million dollars, reversing the previous year's net outflow of 202 million dollars, he said.

Mr. Seaga said lost tax and export income from the aluminum industry, largely reflecting the closure of operations by Aluminum Co. of America (Alcoa) and Reynolds Metals Co., had forced the government to cut 138 million dollars from its import budget of more than 1.2 billion dollars. The result this year, he said, was a decline in GDP.

Singapore Is the Busiest Port

(Continued from Page 13)

the island off the southern tip of the Malay Peninsula in search of a trading site. Singapore quickly became an important trading post for the East India Company and a major port.

The cargo traffic in the early days was mainly barter. It began with East Indiamen, opium clippers and Indian and Chinese junks and was followed by an assortment of Thais, Malays and Indochinese who dealt in spices and cloth from anchorages on the Singapore River.

Singaporeans today attribute the port's success to the liberal economic policies pursued by Prime Minister Lee Kuan Yew since independence from Britain in 1965.

More than 55 shipping lines use the port.

France to Reduce Jobs In Military by 5 Percent

Reuters

PARIS — The French government will eliminate 37,500 military jobs over the next four years as part of its austerity program, Defense Minister Charles Hernu said Sunday.

The measure will affect 5 percent of France's military work force, Mr. Hernu told a television interviewer.

Over-the-Counter

[illegible]

Mutual Funds

Closing Prices June 7, 1985

NEW YORK (AP) — The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

[illegible]

Treasury Bills

Due	Bid	Ask	Yld
6-13	7.46	7.38	7.49
6-20	7.40	7.34	7.46
6-27	6.58	6.48	6.59
7- 5	6.88	6.82	6.95
7-11	7.01	6.97	7.11
7-18	7.02	6.98	7.13
7-25	7.04	7.00	7.16
8- 1	7.04	7.00	7.17
8- 8	7.09	7.05	7.23
8-15	7.08	7.04	7.23
8-22	7.14	7.10	7.30
8-29	7.15	7.11	7.32
9- 5	7.15	7.13	7.35
9-12	7.15	7.13	7.36
9-19	7.15	7.13	7.36
9-26	7.12	7.08	7.33
10- 3	7.20	7.16	7.43
10-10	7.19	7.15	7.43
10-17	7.20	7.16	7.45
10-24	7.21	7.17	7.47
10-31	7.21	7.17	7.48
11- 7	7.23	7.19	7.51
11-14	7.24	7.20	7.54
11-21	7.24	7.20	7.55
11-29	7.27	7.23	7.59
12-05	7.27	7.25	7.62
12-24	7.23	7.19	7.57
1-23-1986	7.30	7.28	7.68
2-20	7.37	7.33	7.75
3-20	7.39	7.35	7.80
4-17	7.43	7.39	7.87
5-15	7.44	7.42	7.94

Source: Federal Reserve Bank

Kredietlux Indices — June 6

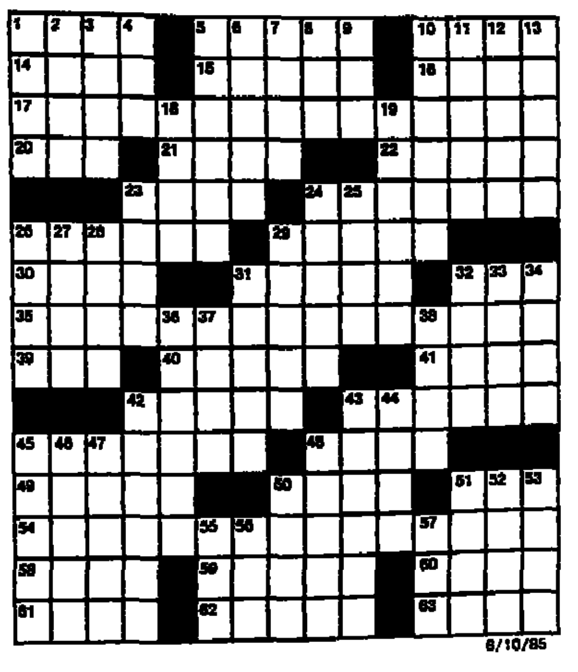
(Base 100 May 1, 1977)

Industrials, US $ L.T.	100.669
Int'l Institutions US $ L.T.	104.461
US $ medium term	108.236
Canadian $ medium term	105.948
ECU medium term	106.397
UC 9	92.946
DM	99.674
Guilders	102.809
FF short term	117.285
F Lux	99.819
Int'l Inst. F Lux medium term	107.39
F Lux medium term	105.385
Int'l Inst. Yen long term	101.566
ECU short term	107.79
ECU long term	107.042

Chicago Exchange Options

For the Week Ending June 7, 1985

[illegible]

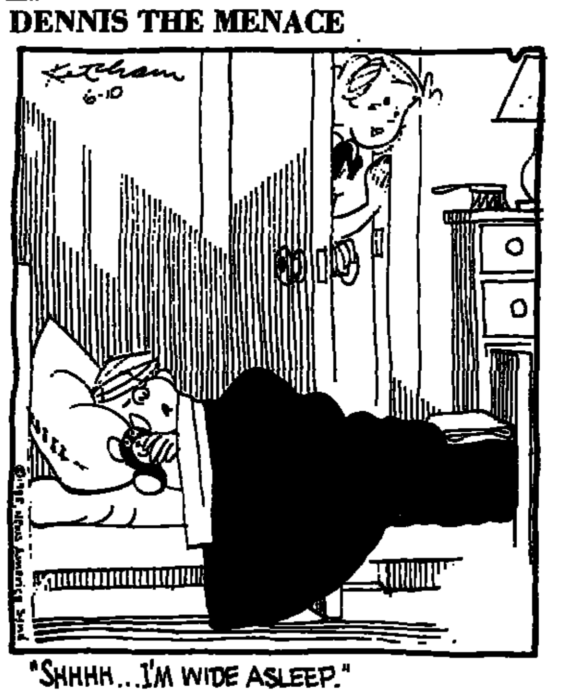


6/10/85

ACROSS
1 Entangles
5 Highway stopover
10 Thick piece
14 Employs
15 Macaw
16 Western Indian
17 Confusing situation
20 Sundown, to Spenser
21 L.A. problem
22 Salary increase
23 Shortly
24 Jogged
26 Female donkey
29 Kin of sorrels
30 Bus. school subject
31 Chuckleheaded
32 Once around the track
35 Picnic event
39 Turf
40 City near Dayton, Ohio
41 Prepare for printing
42 Natives of Dundee
43 Knights' horses
45 Accomplishes a goal
48 Property conveyance
49 Twit
50 Uncommon
51 Permit
54 Certain garb for men
58 Physicists' particles
59 Foreign
60 Bristle
61 "—— la vie"
62 Past or present
63 E. German river

DOWN
1 Silent
2 Arthur of tennis
3 Sea swallow
4 Compass dir.
5 Burrowing rodent
6 Constellation east of Taurus
7 Spicy taste
8 Work unit
9 Varnish ingredient
10 Young herrings
11 Lawful
12 Entertain
13 Founded
18 Domestic slave of yore
19 Smoothed over
23 She of the "thousand days"
24 Kingdom in the Pacific
25 Flatten a Soho flat
26 Super Bowl winners in 1969
27 Canyon phenomenon
28 North, in Nice
29 Actor Toomey
31 Marks on old pots
32 Take on cargo
33 Sour
34 Dogs and cats, e.g.
36 Arouse
37 Trotsky
38 Tall grass
42 Most reasonable
43 Unclouded
44 Golf mounds
45 Garret
46 Lake near Reno
47 Revolutions
48 Small fishes
50 Harness component
51 Prevaricated
52 Diminutive suffix
53 Former Russian ruler
55 Touch lightly
56 —— de France
57 Gp. serving the services

DENNIS THE MENACE



"SHHHH...I'M WIDE ASLEEP."

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

EGBIE

YONPE

DUSSIC

GREFOT

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here: THE " "

(Answers tomorrow)

Friday's | Jumbles: QUEST GAWKY DENOTE SURELY
Answer: What to wear when working outdoors— A "LAWN DRESS"

WEATHER

EUROPE	HIGH C	HIGH F	LOW C	LOW F	
Algarve	27	81	17	63	fr
Amsterdam	13	55	9	48	r
Athens	29	84	20	68	fr
Barcelona	23	73	13	55	st
Belgrade	31	88	17	63	o
Berlin	17	63	8	46	cl
Brussels	11	52	5	41	r
Bucharest	35	95	16	61	cl
Budapest	24	75	12	54	fr
Copenhagen	15	59	8	46	cl
Costa Del Sol	30	86	17	63	cl
Dublin	14	57	8	46	cl
Edinburgh	13	55	7	45	r
Florence	26	79	14	57	fr
Frankfurt	15	59	5	41	fr
Geneva	15	59	4	39	fr
Helsinki	13	55	10	50	r
Istanbul	27	81	19	66	fr
Las Palmas	25	77	19	66	cl
Lisbon	22	72	14	57	fr
London	16	61	10	50	r
Madrid	26	79	8	46	fr
Milan	26	79	12	54	fr
Moscow	15	59	9	48	sh
Munich	14	57	6	43	cl
Nice	29	84	16	61	fr
Oslo	11	52	9	48	r
Paris	16	61	9	48	o
Prague	17	63	5	41	o
Reykjavik	9	48	5	41	fr
Rome	25	77	19	66	o
Stockholm	14	57	9	48	r
Strasbourg	14	57	5	41	fr
Venice	25	77	15	59	st
Vienna	18	64	10	50	r
Warsaw	23	73	10	50	cl
Zurich	13	55	5	41	o
MIDDLE EAST					
Ankara	26	79	5	41	fr
Beirut	28	82	19	66	fr
Damascus	32	90	22	72	fr
Jerusalem	25	77	17	63	fr
Tel Aviv	27	81	17	63	fr
OCEANIA					
Auckland	16	61	10	50	sh
Sydney	16	61	11	52	fr

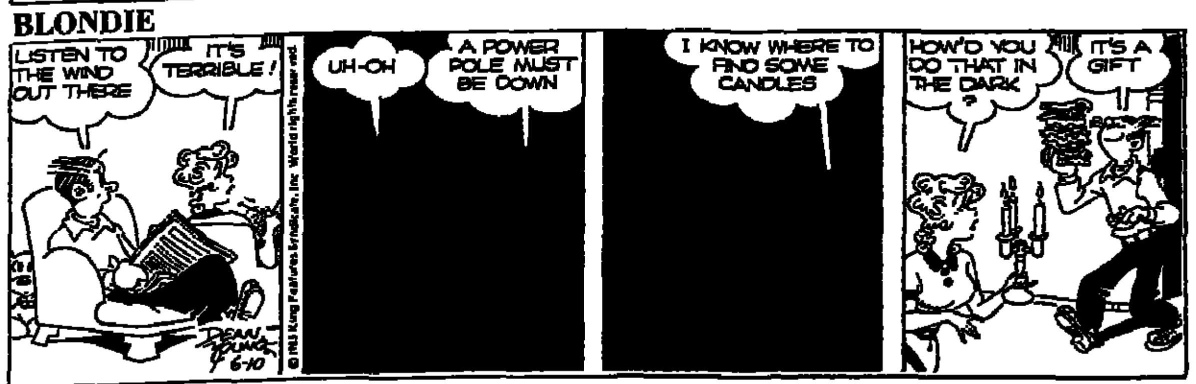
ASIA	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	32	90	27	81	o
Beijing	27	81	17	63	fr
Hong Kong	29	84	25	77	o
Manila	31	88	24	75	o
New Delhi	32	90	28	82	cl
Seoul	23	73	17	63	sh
Shanghai	27	81	19	66	o
Singapore	30	86	25	77	r
Taipei	25	77	16	61	fr
Tokyo	20	68	16	61	r
AFRICA					
Algiers	28	81	18	64	o
Cairo	29	84	19	66	fr
Cape Town	19	66	6	43	cl
Casablanca	23	73	15	59	cl
Harare	19	66	6	43	fr
Lagos	29	84	26	79	o
Nairobi	24	75	15	59	fr
Tunis	28	82	18	64	cl
LATIN AMERICA					
Buenos Aires	14	57	4	39	fo
Caracas	26	79	23	73	cl
Lima	23	73	17	63	o
Mexico City	27	81	9	48	cl
Rio de Janeiro	24	75	15	59	fr
NORTH AMERICA					
Anchorage	14	57	6	43	pc
Atlanta	31	88	20	68	fr
Boston	27	81	14	57	fr
Chicago	29	84	20	68	cl
Denver	29	84	20	68	cl
Detroit	30	86	18	64	fr
Honolulu	31	88	22	72	fr
Houston	35	95	25	77	fr
Los Angeles	34	93	19	66	fr
Miami	33	91	24	75	fr
Minneapolis	25	77	18	64	pc
Montreal	22	72	12	54	cl
Nassau	31	88	23	73	fr
New York	29	84	16	61	fr
San Francisco	24	75	13	55	fr
Seattle	23	73	10	50	cl
Toronto	20	68	10	50	fr
Washington	34	93	20	68	fr

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

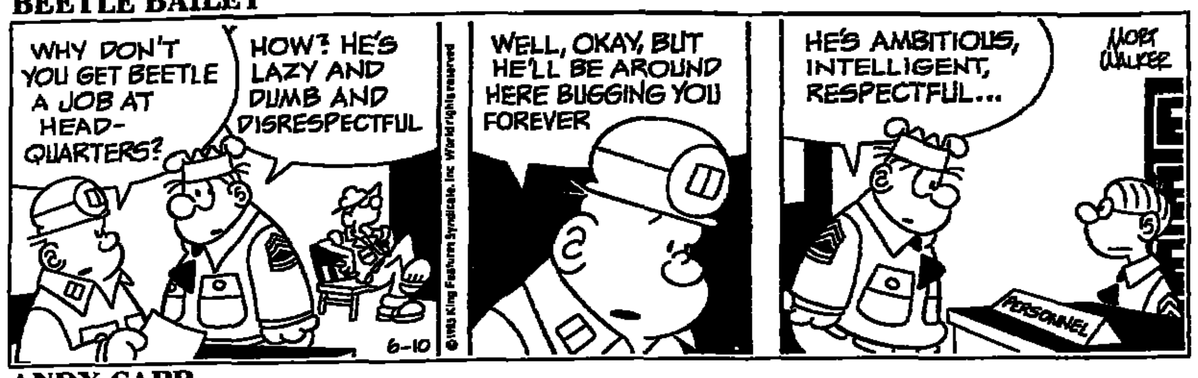
MONDAY'S FORECAST — CHANNEL: Very choppy. FRANKFURT: Cloudy. Temp. 14—6 (57—43). LONDON: Partly cloudy. Temp. 18—10 (64—50). MADRID: Fair. Temp. 26—10 (79—50). NEW YORK: Fair. Temp. 29—17 (84—63). PARIS: Cloudy with showers. Temp. 16—9 (61—48). ROME: Fair. Temp. 26—15 (79—59). TEL AVIV: Fair. Temp. 26—16 (79—61). ZURICH: Cloudy. Temp. 13—6 (55—43). BANGKOK: Not available. HONG KONG: Fair. Temp. 30—26 (86—79). MANILA: Cloudy. Temp. 31—25 (88—77). SEOUL: Showers. Temp. 25—18 (77—64). SINGAPORE: Stormy. Temp. 28—24 (82—75). TOKYO: Showers. Temp. 20—17 (68—63).

PEANUTS

BLONDIE

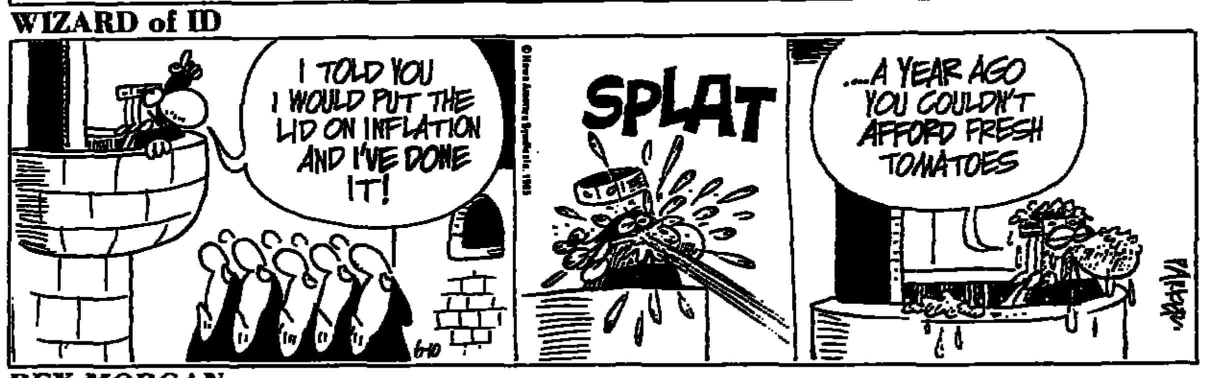


BEETLE BAILEY

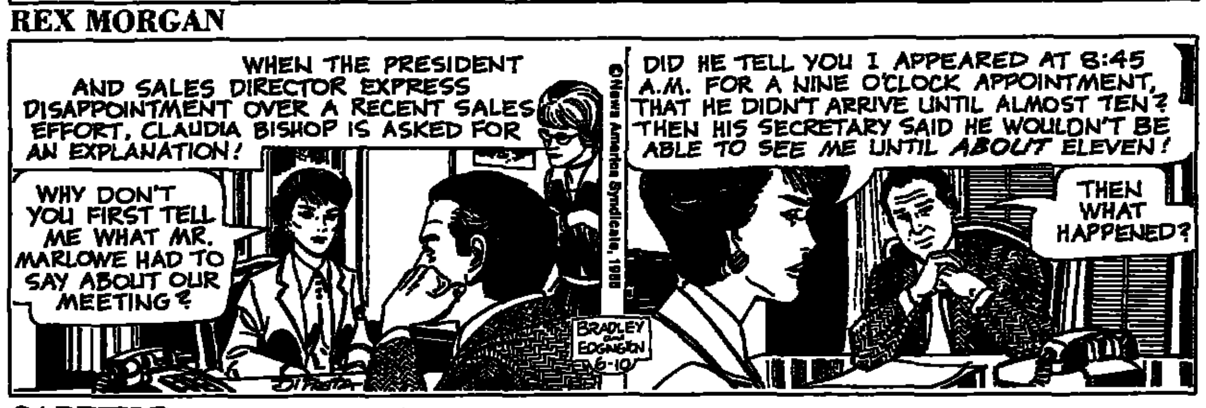


ANDY CAPP

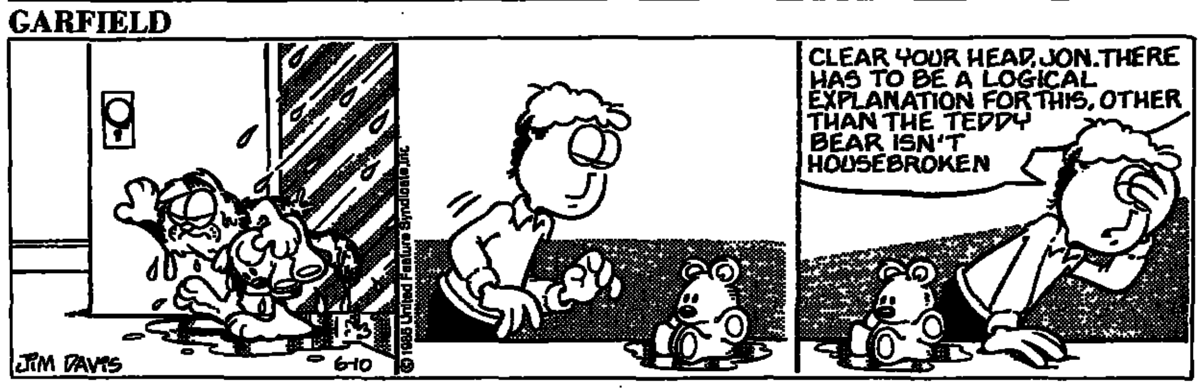
WIZARD of ID



REX MORGAN



GARFIELD



BOOKS

FUNNY MONEY

By Mark Singer. 222 pages. $15.95. Alfred A. Knopf, 201 East 40th Street, New York, N. Y. 10022.

Reviewed by Christopher Lehmann-Haupt

"TO HATCH and execute a successful disaster demands a sustained level of competence and dependability that is, by definition, unavailable to an average group of would-be conspirators. That is why calculated calamities are rare achievements and why, no matter what many of us often insist on believing, thieving conspiracies can almost never be built to last. Coincidence, meanwhile — four vehicles without headlights, all traveling at different speeds, converging on an unmarked intersection at dusk — gets less credit than it deserves. Entropy, random natural chaos, innate stupidity — all are important sources and forces of destruction, and all are quite underrated."

With this rhetorical flourish, Mark Singer sums up the energy crisis created by OPEC nations in the 1970s and the consequent events recounted in his "Funny Money," the story of the rise and fall of Oklahoma City's Penn Square Bank, whose eventual collapse proved about as spectacular as any in the history of American finance.

If I have my facts straight — and if I don't, it's not Singer's fault, for he makes a complicated tale of fiduciary chicanery seem as straightforward as "The Three Little Pigs" — the OPEC-inspired oil price rise created huge foreign investments in U. S. banks that needed somehow to be loaned out. At the same time, the OPEC crisis fostered the illusion in certain fevered minds that the price of energy was going to go up forever and all that was needed to solve the problem profitably was money to drill energy out of the ground in the form of natural gas that surely existed in deep and abundant deposits beneath a sector of Oklahoma known as the Anadarko Basin.

The fatal loop was completed in Oklahoma City when a smallish shopping-mall institution called the Penn Square Bank discovered that, given what was known as the deep-gas concept, and given the grandiosity of the Anadarko Basin visionaries, and given the crazy nature of oil-business financing, it was possible to give away money for nothing, mark these gifts down as bank assets and sell these assets "upstream" to the bigger banks that were dying to lend out their idling petrodollars.

In the words of one former Penn Square employee: "In the past, we have had irresponsible borrowers, and in the past we have had irresponsible lenders, but what we had here, and are having to witness the consequences of in profusion, is the meeting, for the first time, of the irresponsible lender and the irresponsible borrower." It proves a cautionary tale for our times, if only we could figure out who was responsible.

Mark Singer, an Oklahoman from Tulsa who is a staff writer on The New Yorker, where parts of "Funny Money" first appeared, tells the tale with wonderful verve. He concentrates not on the financial complexities of the catastrophe but on the colorful people involved. These range in hues of bizarreness from William G. Patterson — the man at Penn Square in charge of oil and gas loans, who was affectionately known as "Monkeybrains" and whose idea of fun was to come to work in a cap with a duck on top of it or get into food-throwing fights over dinner — to Kenneth E. Tureaud, one of Penn Square's busier customers, whose "methodology," as one student of his career summed it, was "very simple. He borrows money and he doesn't pay it back."

Eventually, the price of energy stopped going up, and the fun ended, at a cost of several billion dollars in bad debts and collapsing banks. With the crash, the spirit of Singer's story dies a little. It may simply be that the characters in his story are so excessively the sort of people that most of the rest of us are not, that we get curious to know a little more about them, and Singer never does get close to them. He only reports their hallucinations. One of them had a dream in which God hit him with a 2-by-4 for trying "to outsmart reality." Another was "not opposed to the idea of bombing the Panama Canal, if that's what it would take to interrupt supply routes." "Yeah, bomb it," he said. "It'll take them Mexicans a year to fix it." We never do get a firm grasp of them.

Or maybe it's that "Funny Money" trails off somewhat inconclusively, with two of the principals about to stand trial in Chicago for crimes against the pocketbook of the United States that were clearly more than the fault of any two individuals. Or maybe going up is just a lot more fun than coming down.

It doesn't really matter. As long as the swindle is alive and the bubble is inflating, Singer's language swells appropriately. He has a satisfying gift for mimicry and an amusing sense of hyperbole. He speaks the American vernacular. He makes comic poetry of geology, oil technology and the art of turning liabilities into assets. He puts himself into the story just enough to infect us with the fun he is obviously having. One comes away from "Funny Money" more intoxicated than hung over, and looks forward to the future adventures that Singer will no doubt be having.

Christopher Lehmann-Haupt is on the staff of The New York Times.

Solution to Friday's Puzzle

SCRAM TANG HEMP
ERATO EWER OLIO
PEDAL TOTO TERN
TAI IGOR ONEMAY
SMILEANDSMILE
IRIS EEL NTH
HAMLET ARRESTEE
ASEA ADE PARR
LINCOLNS AMELIA
TAD DIN EVEL
ANDBEAVILLAIN
ACCUSE SODA SRO
RAID RANK NASAL
ANTE THEE GRETA
BAYS YARD EATEN

6/8/85

Big Ben Clock Is Unwrapped

The Associated Press

LONDON — After 21 months under scaffolding, the last of the four clock faces on the Big Ben clocktower was unwrapped Wednesday. The neo-Gothic tower and the adjoining Houses of Parliament are undergoing a £9-million (about $11.4-million) facelift. The cleaning and restoration which began in July 1981, will continue until 1990.

BRIDGE

By Alan Truscott

ON the diagramed deal, the losers were too passive in the bidding, as shown. After West opened with three spades and North made a takeout double, East should have bid four spades. He was inhibited by his flat distribution, but a player whose partner opens with a three-bid should almost always raise with three-card support or better.

The lead of the diamond deuce was a conspicuous singleton. South won in dummy, led the heart king and followed with the jack. When East played low, the declarer had some thinking to do. He eventually played the ace for two good reasons. West was not likely to have two singletons. And, more important, the contract was now safe: South ran the diamond nine and was able to throw clubs on diamonds before the defense could score a club trick.

A trump finesse would have worked with the actual distribution but might have given the defense a chance to establish a club trick before the diamond queen was driven out.

In the replay East-West bid to four spades, which would have been unbeatable. This pushed North-South to five hearts, which failed by a trick, giving the North-South team 10 points in the transaction.

NORTH
♠ K
♡ K J 10 7 5
◇ A K J 10 3
♣ J 9

WEST (D)
♠ Q J 10 8 7 4
♡ 3
◇ 2
♣ K Q 8 7 2

EAST
♠ A 9 3
♡ Q 8 2
◇ Q 8 7 4
♣ 10 6 4

SOUTH
♠ 6 5 2
♡ A 9 6 4
◇ 9 6 5
♣ A 5 3

Neither side was vulnerable. The bidding:

West	North	East	South
3 ♠	Dbl.	Pass	4 ♡
Pass	Pass	Pass	

West led the diamond two.

SPORTS BRIEFS

Maltbie, Burns Tied in U.S. Golf Tourney

HARRISON, New York (NYT) — Roger Maltbie sank a 4-foot birdie putt on the last hole Saturday to tie George Burns for the lead after three rounds of the Westchester Classic golf tournament.

Burns has been tied for or alone in the lead through all three rounds. But Saturday he shot a 2-over-par 73 for a 54-hole total of 8-under 205. Maltbie carded a 1-over 72 for 205. Clarence Rose was a stroke back at 206.

Maltbie had charged to within one stroke of the lead on Friday with an 8-under-par 63, one stroke off the course record. Burns shot a 66.

Players in Drug Case Likely to Be Called

PITTSBURGH (NYT) — Baseball crept into court for a second time Friday as six defendants in the Pittsburgh drug case pleaded not guilty to charges involving cocaine sales over a five-year period. The seventh man indicted last week has not been scheduled for arraignment.

The trials in federal court are to begin July 8, and baseball players will likely be called to testify. More than a dozen players testified with immunity from prosecution before a grand jury that returned the indictments covering 165 counts.

Dale Shiffman, the only one of the seven who was held without bail after their arrests May 31, lost a second bid to be freed on bail Friday.

Of the counts against Shiffman, the dates of 87 match every one of the 87 days the Pirates were in Pittsburgh during the 1983 season. Nineteen others match Pirates' home dates from the 1982 season.

Master Willie Triumphs in Yonkers Trot

YONKERS, New York (AP) — Jan Nordin drove Master Willie to victory Saturday night in the $440,840 Yonkers Trot, first leg in trotting's Triple Crown, while his younger brother Ulf was second driving Mark Six.

It was the second year a row that the Swedish-born brothers finished 1-2 in the classic for 3-year-olds. Third was Another Miracle, driven by Mickey McNichol.

Soccer Fans Arrested in West Germany

HAMBURG (UPI) — Soccer fans caused disturbances Saturday in Hamburg and on a train headed for Brunswick, police said Sunday. Twenty-seven people were arrested.

In Hamburg, police dispersed Hamburg and Schalke supporters who gathered in the city's St. Pauli district. They prevented any serious clashes and took 23 people into custody, a police spokesman said.

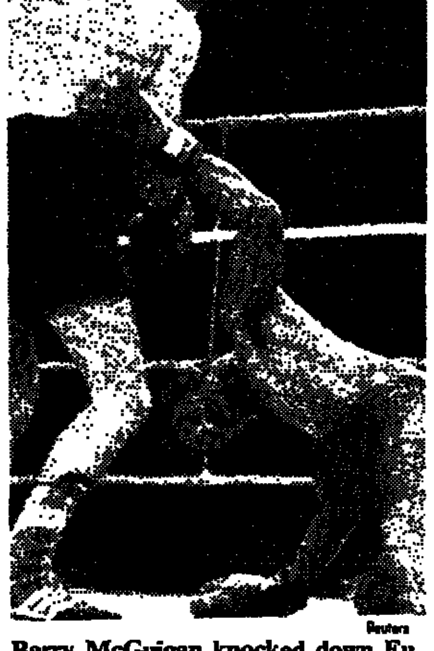
In the other incident, about 60 West Berliners traveling by train to Brunswick to see Eintracht Brunswick play Bayern Munich damaged train seats. Four were arrested when the train arrived in West Germany, police said.

For the Record

Steve Cauthen rode Oh So Sharp, the 6-4 favorite, to victory Saturday in the Epsom Oaks. Oh So Sharp finished six lengths ahead of Tryptych. *(AP)*

Harvard beat Yale in their 120th crew regatta Saturday on the Thames River in New London, Connecticut, breaking a four-year Yale winning streak. *(AP)*

A Chicago sports center may be built to house baseball, football, hockey and soccer teams. Mayor Harold Washington said Friday that a special counsel would meet with foundations, investment bankers and team owners. *(AP)*



Reuters

Barry McGuigan knocked down Eusebio Pedroza in the seventh round.

McGuigan Beats Pedroza

By Jo Thomas
New York Times Service

LONDON — Barry McGuigan, the pride of the Irish, won the World Boxing Association's featherweight title Saturday night in a unanimous decision over Eusebio Pedroza, ending the Panamanian's seven-year reign as champion.

McGuigan set a ferocious pace at the outset of the match and maintained it for all 15 rounds, knocking down Pedroza in the seventh round.

Afterward, McGuigan, 24, revealed that he had pulled a ligament in his left elbow while training last Monday. The injury needed treatment twice a day, he said, and had affected his left jab.

McGuigan said Pedroza, 32, had been training to counter the left jab. When he nailed the Panamanian in the seventh, he said, it was with his right hand.

After the decision was announced, the two fighters embraced. McGuigan said he told Pedroza: "You're a real champion. I'm glad I didn't meet you a year ago."

Pedroza had made 19 successful defenses, the longest string in the featherweight ranks since Abe Attell won 21 in a row from 1906 to 1910.

The first seven rounds were fought at a furious pace. In the seventh, McGuigan caught his opponent with a left-right combination that sent Pedroza crashing into the ropes and onto the canvas.

Pedroza recovered, but was staggered again in the ninth when he was hit with another combination.

The referee, Stanley Christodolou, warned Pedroza about keeping his punches above the belt, and he also warned McGuigan as the two fighters ended up in clinches again and again.

"We love you, Barry," the spectators sang, getting to their feet again and again, arms in the air, their bodies moving in what could only be described as sort of a wild hula. Thousands of Irish fans from north and south of the border had jammed the Queen's Park Rangers soccer stadium to cheer hours before the fight began.

The streets of Belfast, where McGuigan had hoped to stage the fight, were virtually deserted during the fight. But within minutes after it ended, the streets were filled with jubilant people dancing as horns blared.

■ **House Catches Fire**

Fire broke out early Sunday at McGuigan's family home in Clones, United Press International reported from Dublin.

McGuigan's mother, Katie, his sister, Rachel, and an aunt were led to safety. No one was hurt, but damage was extensive. Police said they believed the fire started accidentally.

Stephens' Entry Finishes 1-2 in Belmont Stakes

By Andrew Beyer
Washington Post Service

ELMONT, New York — Long after the winner of the 117th Belmont Stakes has been largely forgotten, racing people still will marvel at the feat of trainer Woody Stephens.

Not only did Stephens, 71, win the Belmont on Saturday for the fourth consecutive year, but his two-horse entry ran one-two, as Creme Fraiche edged Stephan's Odyssey by a half-length to become the first gelding to win the race.

Having won with Conquistador Cielo in 1982, Caveat in 1983 and Swale in 1984, Stephens was blessed by good fortune this time because Creme Fraiche improves dramatically on a muddy track like the one Saturday at Belmont.

Stephens was aided, too, by one of the hottest paces in the history of the Belmont, which took its toll on the front-runners and enabled Creme Fraiche and Stephan's Odyssey to rally from next-to-last and last place, respectively, and cover the 1 1-2 miles in a swift 2:27, the fourth-fastest winning time ever in the Belmont.

They finished 4½ lengths ahead of the tiring favorite, Chief's Crown, with Fast Account fourth. Tank's Prospect, the Preakness winner, pulled right front suspensory ligaments during the stretch run and finished last.

X-rays of the leg were to be taken Sunday, but Tank's Prospect's owner, Eugene Klein, said the colt would be retired from racing.

Everybody involved in the Belmont knew that the surprise entry of speedy Eternal Prince would ensure an honest pace, but it turned out to be blistering when Purple Mountain outsprinted him and took the lead, racing the first half-mile in :47 flat.

Jockey Angel Cordero Jr. wisely kept Chief's Crown five or six lengths behind the leaders. Eddie Maple, aboard Creme Fraiche, and Laffit Pincay Jr., on Stephan's Odyssey, had little choice. The styles of their mounts dictated that they lay near the back of the pack.

As the leaders began to weaken from running a mile in a blazing 1:35 1/5, Cordero made his move and surged on the outside to take a narrow lead. But it was short-lived. Both of Stephens' horses were accelerating strongly. Pincay squeezed through on the rail with Stephan's Odyssey. Maple ran into a bit of traffic with Creme Fraiche and swung four-wide.

As Chief's Crown began to fade, the entrymates took command and battled head-and-head.

"At the sixteenth pole," Stephens said, "I thought it was going to be a dead heat and I'd have five winners." But Creme Fraiche inched away, running the final quarter in :25 3/5.

SPORTS

Lakers Beat Celtics By 111-100 to Win NBA Championship

By William R. Barnard
The Associated Press

BOSTON — The Los Angeles Lakers, with most valuable player Kareem Abdul-Jabbar leading the way as he did in every victory, ended a generation of futility against the Boston Celtics with a 111-100 victory Sunday that gave them their third National Basketball Association title since 1980.

The Lakers, who won this series 4-games-to-2, now have won nine NBA titles, taking four in Los Angeles and five in Minneapolis. But this was the first over the Celtics in nine meetings since 1959.

For Boston, the defeat broke a streak of never having lost a championship series at home. The Celtics are now 15-2 in NBA finals, the only previous series loss coming in 1958 at St. Louis.

The Celtics were trying to become the first team to repeat as champions since they did it in 1969. They were only the third defending champion in that span to make it back to the finals.

Abdul-Jabbar, who scored 121 points in the Lakers' four victories, got eight of his 29 points Sunday in the first 8½ minutes of the third quarter. In that span, the Lakers broke away from a tie at 57, the 20th tie of the game, for a 79-67 lead.

But just as the Celtics did in the fifth game, when they cut Los Angeles' 18-point lead to four before falling short, they rallied. The Celtics had closed to 82-73 by the end of the third periods, then outscored the Lakers by 9-4 to start the fourth period. , trimming the margin to 86-82 with 8:56 left.

Two free throws each by Abdul-Jabbar and James Worthy, who finished with with 28 points, and a driving layup by Kurt Rambis rebuilt Los Angeles' advantage to 92-82 with fewer than seven minutes left to play and Boston got no closer than six the rest of the way.

Kevin McHale scored a career-playoff high 32 points for the Celtics before fouling out with 5:21 left. Larry Bird added 28, but had another frustrating shooting.

Abdul-Jabbar, at 38 the oldest player in the NBA, climaxed his big series with three straight baskets in the final minutes to give the Lakers an insurmountable lead at 109-97. Then, after a foul, he and Earvin (Magic) Johnson embraced in the free throw lane, certain in the knowledge that the years of frustration, particularly last season's seven-game defeat, had ended.

At the final buzzer, after the sell-out crowd of 14,890, which had exhorted the Celtics all game, gave both teams an ovation, the Lakers quickly left the floor.

Of the 16 consecutive teams who have not repeated as champions, the Celtics have gone further than any other. Of the two other defending champions to reach the finals, the Washington Bullets lost by 4-1 to Seattle in 1979 and the Lakers lost by 4-0 by Philadelphia in 1981.

McHale scored 13 points and made five of his six shots in the first period, but the rest of the Celtics were 4-for-19 and Los Angeles led by 28-26 at the end of the quarter.

Boston missed seven of its first eight shots, but stayed close with several offensive rebounds and steals. Then McHale made three straight shots for the Celtics, each tying the score.

After Byron Scott and Danny Ainge traded jumper shots for a tie at 12, the fifth tie of the game, Los Angeles scored nine of the next 11 points, Worthy getting four, for a 21-14 advantage. That was the largest lead for either team in the first half. But the Celtics came right back with a 10-2 spurt, with two free throws by McHale giving them their first lead, 24-23.

Boston continued to shoot poorly in the second quarter but stayed close as the Lakers' running game failed to click. Early in the period, the Lakers misfired on three straight fast-break opportunities, then Abdul-Jabbar and Magic Johnson sat out the last 5:58 and 2:35 of the half, respectively, with three fouls each.

At halftime it was 55-55, the 13th tie of the second quarter and 19th of the half.

□

Friday night, Worthy made 13 of 17 shots and scored a career playoff high of 33 points night as the Lakers beat the Celtics, 120-111, in Inglewood, California. Abdul Jabbar and Johnson joined Worthy with brilliant performances, Johnson getting 26 points and 17 assists while Abdul-Jabbar had 36 points and did a strong job defensively.

After McHale scored 16 points in the first 13 minutes of the game, the Lakers' coach, Pat Riley, switched Abdul-Jabbar to guarding McHale and Boston's center-forward scored only eight more points the rest of the way.

The switch put 6-foot-8 (2.03-meter) Rambis and the 6-10 Bob McAdoo on the Celtics' 7-0 center, Robert Parish, who went on to score 15 of his team-high 26 points in the second half.

Parish and Bird, who scored 18 of his 20 points in the second half, led a rally that cut the Lakers' 70-52 lead to four points five times in the fourth period. But the Lakers, who went scoreless in the first 3:43 of the final quarter, rediscovered their offense and scored every time their advantage was cut to four.

After Bird's two free throws made it 107-103 with 3:55 left, Abdul-Jabbar sank three shots in a 10-4 spurt that gave the Lakers a 117-107 lead with 1:21 remaining.

Reuters

Chris Evert Lloyd raised arms in jubilation after hitting winning shot in 6-3, 6-7, 7-5 defeat of Martina Navratilova.

Wilander, Evert Win French Titles

By Greg MacArthur
The Associated Press

PARIS — An aggressive Mats Wilander, taking the net at every chance, roared from behind Sunday to defeat defending champion Ivan Lendl 3-6, 6-4, 6-2, 6-2 and win the French Open men's singles tennis championship.

It was the Swede's second title at Roland Garros in four years, having won the crown in 1982.

When he defeated Argentina's Guillermo Vilas three years ago, Wilander stayed on the baseline. But against Lendl, the 20-year-old Swede fought his way to the net repeatedly, putting away winning volleys. And when he did stay back, he won most of the long-range rallies as he completely dominated the world's No. 2-ranked player.

"I didn't play my best tennis today," Wilander said. "But I played the right tennis on clay against Ivan. My tactics worked 100 percent today."

The strategy was to hit the ball deep and away from Lendl's punishing forehand and to go to the net at every chance.

"I've been working really hard on my volley, and today it worked 100 percent," Wilander said.

"The problem," Lendl conceded, "was that if I played steady from the backcourt, he was taking the short balls and coming to the net. And when I tried to be aggressive, I was missing. So neither strategy took me where I wanted to get."

The last three sets were all Wilander. Seeded fourth in this Grand Slam tournament, he attacked often and wisely, sending home volley winners time and again as Lendl stood helpless at the baseline or was caught going the wrong way at mid-court.

Wilander jumped out to a 2-0 lead in the opening set, holding serve to begin the match at love, then breaking Lendl in the second game. But Lendl broke back in the third game, the final point coming when the Swede double-faulted.

Lendl pulled ahead in the seventh game when he broke Wilander at 30 when the Swede netted a backhand. And, after holding his own serve at 30, Lendl broke Wilander at 15 to close out the set, having won the last three games.

The two began the second set by trading service breaks. The Swede, however, attacking on almost every point, nearly broke Lendl's service in the third game, then finally did in the fifth game. He then held his next three service games to knot the match at one set each.

As he had in the first two sets, the Swede took an early lead in the third set, breaking Lendl in the first set at 15. Lendl complained when a linesman called the final point wide. He walked to the spot where the ball had landed, apparently agreed with the call, and continued walking off the court, apparently to go to the bathroom.

Lendl broke right back, leveling the set at 1-1, but the 6-foot-1 Czech right-hander never held his serve in the set as Wilander applied constant pressure.

Down two service breaks, Lendl got one of them back in the sixth game when Wilander sailed a forehand long on the second break point. But in a 20-point game, the longest of the match, Wilander broke Lendl again — the fourth time in the set, then held to take a 2-1 lead in sets.

Lendl held at love to open the fourth set, the first time he had held his own service since the ninth game of the second set. But Wilander broke the Czech's serve in the third game, then held at love to take a 3-1 lead.

Lendl never could get back in the match, dropping his serve again in the fifth game. Wilander then closed out the match at 30.

It was Wilander's fifth Grand Slam final and his fourth victory. He has won the Australian Open the last two years and could win a $1 million bonus if he can capture the men's singles crowns at Wimbledon and the U.S. Open this year.

The Associated Press

Mats Wilander rallied for his 3-6, 6-4, 6-2, 6-2 victory over Ivan Lendl in the French Open.

Evert Triumphs in 'One of the Toughest Matches of My Life'

By Samuel Abt
International Herald Tribune

PARIS — Chris Evert Lloyd had not beaten Martina Navratilova in a Grand Slam tennis championship since 1982, but she made up for that dismal record Saturday by winning the French Open singles final in what Evert called "one of the toughest matches of my life."

Evert, 30, who was seeded No. 2, defeated Navratilova, the No. 1 seed and the defending champion, 6-3, 6-7 (4-7), 7-5. Evert came from 0-40 down on her serve, then broke Navratilova to win the last set.

"There are so many places I could point at and say, 'If I had won this, if I had won that,'" Navratilova said ruefully.

The most prominent was the game that gave Evert a 6-5 lead in the final set. As the championship neared its third hour of play, Evert started her service by double faulting, flubbing the return of a passing shot, then hitting into the net.

At that point, Navratilova had won 11 of the last 13 points and seemed on the verge of the same comeback that let her win the second set tie breaker after she trailed, 3-1 and 6-5.

But Evert pulled to deuce with the aid of a reflex return at the net that Navratilova just missed hitting back. Next, Evert smashed a backhand into the right corner that Navratilova could not reach, although she went sprawling. Finally, Navratilova netted a forehand.

They battled to deuce in the next game before Navratilova hit a ball over the baseline and Evert put a passing shot down her left-hand line for the championship.

"This was the closest, most suspenseful final we've played," said Navratilova, 28, of her long rivalry with Evert. That covers a lot of time and territory, since they now have competed in 66 matches. Navratilova had won 34, and 17 of the 19 title matches, before Saturday's.

Evert's victory gave her the modern record for women in the French championship, with six. She won her first in 1974 and had shared the record of five with Margaret Court-Smith of Australia, although Suzanne Lenglen of France won six in the 1920s. Navratilova has won the title twice, most recently last year when she beat Evert, 6-3, 6-1.

"She blew me off the court last year," Evert recalled.

Neither player dominated this time. The match, although spectacular, was erratic, even sloppy in spots, as service was lost 17 times, 9 by Navratilova. "We had game points all over the place," she admitted. "Either one of us could have won or we could have played forever, but you don't have draws in tennis."

She said she had not played her best game before the capacity crowd of 16,000 at center court at Roland Garros Stadium. "I played on heart mostly because I didn't play as well as I hoped for or as well as I can. I had so many shots on my racquet that if I had made them, it would have been a different story."

The crisp, windy day alternated between hot when the sun was out and quite cool when it was covered by dark clouds, but neither player chafed overmuch about conditions on the red clay court.

"I couldn't go too close to the lines because of the wind," said Navratilova, but she added that her problem had been her serve. "My serve failed me. I don't know where my serve is, but it's not here, it's not in France. I can't lose my serve nine times and win a match."

Had she lost, Evert said, "I would have been depressed about tennis. Martina's been so dominant and I've been thinking about retiring, so this victory came at a good time.

"I was getting beat pretty badly by her last year and this year it's been closer. It all depends on your confidence."

Speaking of confidence, she said, "I wasn't very confident when I was down 0-40. I kept telling myself to hang in there because I sensed she was a little nervous too. I'm proud of how I hung in there. On paper, I lost the match."

SCOREBOARD

Baseball

Friday's and Saturday's Major League Linescores

AMERICAN LEAGUE

[illegible]

NATIONAL LEAGUE

[illegible]

Major League Standings

AMERICAN LEAGUE
East Division

	W	L	Pct.	GB
Toronto	36	17	.679	—
Baltimore	29	23	.558	6½
Detroit	28	24	.538	7½
New York	27	24	.529	8
Boston	27	25	.519	8½
Milwaukee	25	25	.500	9½
Cleveland	19	35	.352	17½

West Division

	W	L	Pct.	GB
Kansas City	28	24	.538	—
California	28	25	.528	½
Chicago	26	24	.520	1
Oakland	25	27	.481	3
Seattle	24	30	.444	5
Minnesota	23	29	.442	5
Texas	20	33	.377	8½

NATIONAL LEAGUE
East Division

	W	L	Pct.	GB
Chicago	31	19	.620	—
New York	30	20	.600	1
Montreal	32	22	.593	1
St. Louis	28	24	.538	4
Philadelphia	18	34	.346	14
Pittsburgh	17	34	.333	14½

West Division

	W	L	Pct.	GB
San Diego	31	21	.596	—
Cincinnati	29	24	.547	2½
Houston	28	25	.528	3½
Los Angeles	27	27	.500	5
Atlanta	21	30	.412	9½
San Francisco	20	32	.385	11

Soccer

WEST GERMAN FIRST DIVISION
CHAMPIONSHIP
Bayern Munich 1, Eintracht Brunswick 0
Other Results
Borussia Dortmund 2, Werder Bremen 0
Borussia Moenchengladbach 1, Eintracht Frankfurt 3
VFL Bochum 1, Fortuna Duesseldorf 0
Bayer Leverkusen 2, SV Waldhof Mannheim 1
SC Karlsruhe 1, VFB Stuttgart 1
FC Kaiserslautern 6, FC Cologne 0
Arminia Bielefeld 1, Bayer Uerdingen 0
SV Hamburg 2, FC Schalke 0
AUSTRIAN FIRST DIVISION
Eisenstadt 2, DSV Alpine 3
Grazer AK 3, Rapid 3
Austria Vienna 4, Sturm Graz 1
SV Spittal 1, Admira Wacker 1
[illegible]
SWISS FIRST DIVISION
[illegible]

Tennis

FRENCH OPEN
MEN'S DOUBLES FINAL
Mark Edmondson and Kim Warwick, Australia, def. Shlomo Glickstein, Israel and Hans Simonsson, Sweden, 6-3, 6-4, 6-7 (5-7), 6-3.
WOMEN'S DOUBLES FINAL
Martina Navratilova and Pam Shriver, U.S., def. Claudia Kohde-Kilsch, West Germany, and Helena Sukova, Czechoslovakia, 4-6, 6-4, 6-2.
MIXED DOUBLES FINAL
Martina Navratilova, U.S., and Heinz Guenthardt, Switzerland, def. Paula Smith, U.S. and Francisco Gonzalez, Paraguay, 2-6, 6-3, 6-2.

Transition

BASEBALL
American League
SEATTLE—Placed Mark Langston, pitcher, on the 21-day disabled list. Called up Robert Long, pitcher, from Calgary of the Pacific Coast League.
TEXAS—[illegible]
National League
ATLANTA—[illegible]
CHICAGO—[illegible]
HOUSTON—[illegible]
PHILADELPHIA—[illegible]
PITTSBURGH—[illegible]
BASKETBALL
National Basketball Association
SACRAMENTO—[illegible]
United States Basketball League
WILDWOOD—[illegible]
FOOTBALL
National Football League
BUFFALO—[illegible]
DALLAS—[illegible]
HOCKEY
National Hockey League
DETROIT—[illegible]
L.A. KINGS—[illegible]
COLLEGE
ARIZONA STATE—[illegible]
BOISE STATE—[illegible]
IONA—[illegible]
MINNESOTA-DULUTH—[illegible]

Football

USFL Standings

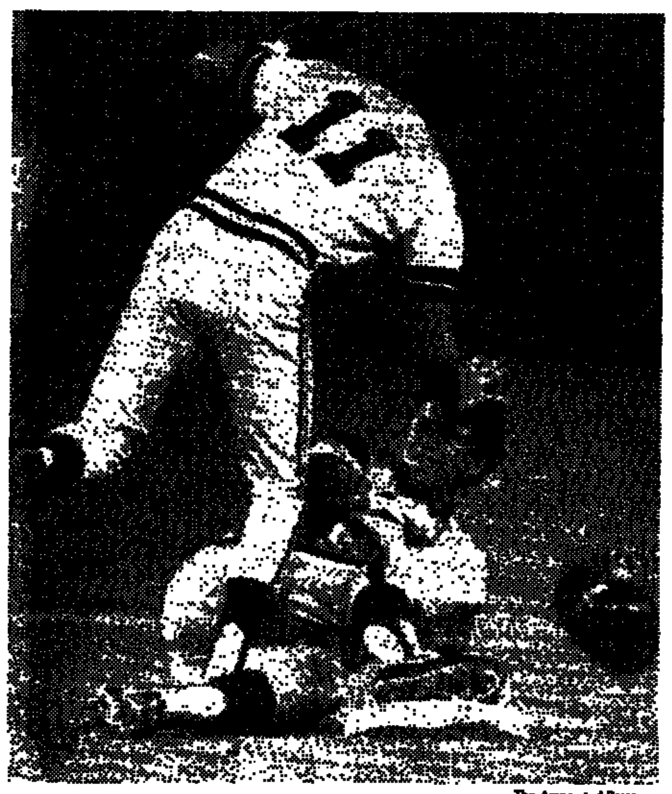
EASTERN CONFERENCE

	W	L	T	Pct.	PF	PA
x-Birmingham	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	276
New Jersey	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	305
Memphis	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	309
Tampa Bay	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	370
Jacksonville	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	334
Baltimore	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	240
Orlando	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	433

WESTERN CONFERENCE

	W	L	T	Pct.	PF	PA
x-Oakland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	209
Denver	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	311
Houston	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	320
Arizona	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	357
Portland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	384
Los Angeles	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	387
San Antonio	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	347

x-clinched playoff berth
FRIDAY'S RESULT
[illegible]
SATURDAY'S RESULTS
[illegible]



The Associated Press

Tim Teufel, the Twins' second baseman, used Carlton Fisk's head for support after thwarting the White Sox catcher's attempt at stealing base Saturday in Minneapolis.

Herr's Homer Gets Cardinals Past Mets

NEW YORK — Tommy Herr hit a home run in the ninth inning Saturday, giving the St. Louis Cardinals a 1-0 victory over the New York Mets and earning extravagant praise from his manager.

Herr's second home run of the season, and only his eighth in more than 2,100 at-bats, gave him 50 RBI and broke up a brilliant pitching battle. St. Louis' John Tudor and New York's Ed Lynch baffled the hitters through eight innings, with Tudor allowing only three hits and Lynch two.

But Lynch left for a pinch hitter in the eighth, and his replacement, Tom Gorman, threw a 3-and-1 fastball that Herr drove over the left-field fence.

"Herr is right now the best player in baseball," said his manager, Whitey Herzog. "He is an intelligent ballplayer who has always been underrated."

Reds 7, Padres 4: In Cincinnati, aggressive base running by Gary Redus and a three-run home run by Cesar Cedeno beat San Diego. Redus got two singles, stole second each time and each time was driven in by Dave Parker.

SATURDAY BASEBALL

Astros 4, Giants 1: Nolan Ryan pitched seven shutout innings in Houston and widened his lead over Steve Carlton in career strikeouts while beating San Francisco. Ryan struck out seven, for 3,961 to 3,905 for Carlton.

Cubs 7, Pirates 3: Chicago utility infielder Chris Speier, playing second for injured Ryne Sandberg, drove in four runs to help the Cubs beat visiting Pittsburgh and take first place in the East.

Expos 4, Phillies 3: Andre Dawson homered in the first inning in Philadelphia and Montreal went on to hand the Phillies their fourth loss in a row and their 12th in 15 games.

Braves 7, Dodgers 3: Rick Mahler pitched a seven-hitter and batted in two runs in eight innings as Atlanta, playing at home, beat Los Angeles.

Royals 4, Angels 1: In the American League, Mark Gubicza and Dan Quisenberry pitched a five-hitter in Anaheim, California, putting Kansas City one-half game ahead of the Angels in the West.

Tigers 10, Blue Jays 1: Detroit handed Toronto its worst beating this year as rookie Randy O'Neal, backed by 15 hits, gave up four hits in seven innings in Toronto.

Red Sox 2, Orioles 1: Bruce Kison worked out of a first-inning jam with the bases loaded and nobody out in Baltimore, giving up only one run, and pitched Boston to its sixth straight victory and ninth in 10 games.

Indians 12, Mariners 8: Pat Tabler drove in six runs with a grand slam homer and two singles to help beat Seattle in Cleveland.

White Sox 3, Twins 1: Chicago's Britt Burns held Minnesota to three hits in 6⅔ innings in Minneapolis. During one stretch, Burns retired 13 consecutive batters.

A's 6, Rangers 5: In Oakland, California, Bruce Bochte hit knuckleball from Charlie Hough for a two-run single in the sixth to beat Texas.

Yankees 2, Brewers 1: Dale Berra's single in the 13th scored Dave Winfield from second base as New York won in Milwaukee. Ray Burris held the Yankees to three hits until the ninth. *(LAT, UPI, AP)*

Cubs' Sutcliffe Returns With 5-Hitter

Compiled by Our Staff From Dispatches

CHICAGO — Rick Sutcliffe, making his first start in almost three weeks, pitched a five-hitter and struck out nine to lead the Chicago Cubs to a 1-0 victory Friday over the Pittsburgh Pirates.

Jose DeLeon matched Sutcliffe except for one pitch, the one Jody Davis hit for a home run in the second inning. The loss was the Pirates' fourth in a row.

Sutcliffe came off the disabled list shortly before game time, having incurred a partial tear of his hamstring on May 19.

"It was kind of like opening day again for me," Sutcliffe said. "I didn't know what to expect. I was winded out there for a while, but I never felt any pain in the leg."

He added: "I didn't really expect to do as well as I did."

Padres 9-3, Reds 3-2: San Diego swept a doubleheader in Cincinnati and took a three-and-a-half game lead over the Reds in the West. In the first game, Kurt Bevacqua hit a grand slam home run and Carmelo Martinez hit a three-run homer. Tony Gwynn won the second game with a home run in the 11th inning.

FRIDAY BASEBALL

Cardinals 7, Mets 2: Tommy Herr and Jack Clark each drove in two runs as St. Louis scored six in the 13th inning in New York. The teams had been tied since the fifth.

Expos 3, Phillies 1: Tim Raines, who opened the season slowed by a hamstring injury, stole three bases and scored all three Montreal runs to help David Palmer win a pitching battle with Steve Carlton in Philadelphia.

Dodgers 7, Braves 2: Mike Scioscia homered and drove in two runs as Los Angeles won in Atlanta.

Astros 4, Giants 1: Phil Garner drove in two runs to help beat San Francisco in Houston.

Blue Jays 9, Tigers 2: In the American League, in Toronto, George Bell hit a two-run home run and singled in a third run against Detroit.

Royals 6, Angels 0: Kansas City beat California but lost star third baseman, George Brett, who pulled his right hamstring as he was running the bases in the fifth inning in Anaheim, California.

Mariners 6, Indians 4: Seattle's Bill Swift, a member of the 1984 U.S. Olympic team who was brought up from the Class AA minors, pitched one-hit ball for five innings in Cleveland.

Twins 6, White Sox 3: Pete Filson pitched the first complete game of his major league career in Minneapolis to give Minnesota its second victory in its last 14 games.

Red Sox 8, Orioles 4: Dwight Evans drove in four runs and Rich Gedman went 4 for 4 in Baltimore as Boston won its fifth in a row and seventh in eight games.

Brewers 10, Yankees 9: Despite four home runs, two by Dave Winfield, New York fell a run short in Milwaukee. The Brewers won it in the 10th with an RBI infield hit by Charlie Moore.

Rangers 4, A's 2: Curtis Wilkerson hit a two-run triple in the seventh inning and scored the winning run in the 10th to give Texas its victory in Oakland. *(LAT, UPI)*

LANGUAGE

A Toast to 'White Bread'

By William Safire

WASHINGTON — Describing the effect of softened violence in a movie called "The Dirty Dozen: Next Mission," John Corry, a New York Times television critic, wrote, "It may be a *white bread* war . . ."

Explaining his desire to reach a solid, middle-class audience for his revival of the musical play "The King and I," Larry Miller of Corinthian Communications said: "We wanted white-bread Middle America."

This new adjective has puzzled David Cole of Norwalk, Connecticut: "It looks like these fellows are trying to enrich the language. This use of *white bread* (with or without the hyphen) as an adjective suggests some variations: *pita bread politics* in Lebanon; *pumpernickel styling* of a Volkswagen; *unleavened advice* from an attorney. In all seriousness, from whence cometh *white bread* as a modifier?"

Although *whence* means *from where* and does not take a redundant *from*, the question is otherwise well taken. The new adjective was launched in the 1960s.

Maclean's magazine, in a 1968 interview with Norman Mailer, quoted the novelist's distaste of a "white-bread mentality" he associated with the baby-care ideas of Dr. Benjamin Spock. In 1977, Newsweek described the entertainer Richard Pryor, who is black, as walking off the stage in Las Vegas "fed up with doing 'white bread' humor." A year later, the magazine praised Norman Lear's television series "All in the Family" for going "beyond what the trade called 'white bread and mayonnaise' — and the customers happily lapped it up."

The definition of the hyphenated compound adjective *white-bread*, from most of those usages, seems to be "bland." The lexicographer Sol Steinmetz, however, takes it a couple of layers deeper: "Used figuratively and chiefly as an adjective, *white-bread* is one of the most subtle and suggestive terms of disparagement to have appeared in recent years." Emphasizing that its core meaning is "belonging to or reflecting the values of American white society," Steinmetz points to the way the word suggests the soft, flavorless richness of the supermarket staple. "In slang, *bread* means 'money, affluence,' and *white-bread* is also a pun on *white-bred*."

The term has an earlier history in waiters' lingo: in a restaurant, *white bread* was long the code reference to the boss. When an employee whispered "Eighty-six on the free warts — white bread," it meant "Be on your guard, do not dispense extra olives in the martinis, the owner is here." (*Eighty-six* was an American adaptation of cockney rhyming slang, rhyming with *nix*, and *warts* are olives.)

A *PEJORATIVE* adjective slights, belittles, disparages and depreciates the noun it modifies. For example, *weak* is pejorative (from the Old English *wac* for "yielding" or "feeble"); nobody likes a weak president or weak coffee.

The opposite of *pejorative* is *aggrandizing*, *extolling* or *laudatory*. For example, *strong* is a laudatory word; we all admire strong leaders.

What, then, do we do when *strong* becomes pejorative and *weak* is not all that bad? Consider the dollar.

Senator Daniel Patrick Moynihan, Democrat of New York, was explaining the difficulties of a New York-based company, Kodak: "What it can't do," wrote the senator in his newsletter to constituents, "is overcome the effect of the overpriced dollar." He then shifted into a discussion of semantics: "Here there is a real problem with the words we use. We say *strong dollar*. Strong dollar, strong America, right? Wrong. But there you are. Overpriced is a better way to put it. If the dollar is overpriced, American exports are overpriced; imports are underpriced."

The trouble with the Moynihan solution is that *overpriced* and *underpriced* are as value-laden as *strong* and *weak*; needed are words of comparison, neutral or at least fair-seeming, that describe the status of the dollar in relation to other currencies.

Try *high* and *low*: "The dollar was high today against the franc," or "The value of the dollar lowered today, while rupees and zladniks soared." Unlike *strong*, the word *high* is not always unassailably good, and though *low* is not a good word for most moods, it is a happy description of tensions and temperatures.

New York Times Service

The Deliverance Of James Dickey

By Sam Hodges
United Press International

COLUMBIA, South Carolina — Most everyone here tells a James Dickey story. This is storytelling country, and Dickey, to say the least, is a character. For instance:

Dickey returned to the University of South Carolina one day last spring from a grueling round of poetry readings. He sat behind a desk and tried to concentrate on teaching his creative writing class.

Suddenly his nose began to bleed. This was no trickle. This was, by nosebleed standards, a gusher. Dickey moved a hand upward and got it wet with blood.

A student recalls thinking the poet would surely reach for a handkerchief or leave the room to clean up. Instead, Dickey took his other hand and rubbed hard around his nose. Then he held two red hands out to his cringing students.

"Don't say I never bled for you," he yelled, triumphant.

Dickey, 62, may not literally bleed for his students, but they speak admiringly of him. They concede his eccentricities. They concede his legendary ego. Neither gets in the way of his teaching, they say.

Dickey is perhaps the best-known contemporary American poet who is regarded seriously by literary critics. He won the National Book Award for poetry in 1966. Four years later he published "Deliverance," a best-selling novel that became a popular film. He was twice named consultant in poetry to the Library of Congress. And he has written original, provocative literary criticism in what is called the post-modernist tradition.

He has also been something of a celebrity. He did guest spots on the Johnny Carson show, the Bill Buckley show, the Dick Cavett show. He had a bit part as backwoods sheriff in the film of "Deliverance." At Jimmy Carter's request, he wrote and read "The Strength of Fields" as a presidential inaugural poem in 1977.

With his notoriety and his credentials as poet, Dickey could probably pick his spot as writer-in-residence. But instead of the Ivy League he chose the University of South Carolina, a school struggling to improve its academic reputation. He is in his 16th year here.

"In James Dickey we have a world-class writer, a poet whom many judges regard as America's greatest living poet," said Matthew Bruccoli, professor of English at South Carolina and author of books on F. Scott Fitzgerald. "It's good for our students to be exposed to genius."

Dickey comes to the campus twice a week to teach classes in poetry and creative writing. He's an impressive sight: as big as a linebacker, though the weight settled decades ago. To a recent class he wore a floppy cloth hat, a white jersey with yellow sleeves, a Northwestern University windbreaker, faded blue jeans, two watches (one set at Greenwich time and one at Eastern time, to better determine his place in the cosmos), and, encased in clear plastic and hung around his neck, hawk feathers given him by a Montana Indian.

His voice prompts attention, too. Brought up in Atlanta, he is drawl-intact Southern, prone to adding unnecessary vowels and dropping essential consonants. He says "y'all" often, and convincingly.

Dickey is known for his self-confidence. On his office wall hangs a photograph of a water moccasin he says he killed with a blow dart. "Deliverance," partly autobiographical, concerns hunting with a bow and canoeing through rapids. Dickey played football briefly at Clemson, and flew bombing missions in the Korean War and World War II.

As for self-confidence, consider this: Dickey once wrote a knowing poem entitled "Adultery" and included it in a volume dedicated to his first wife. And here's Dickey on "Deliverance."

"I read it again the other day. Liked it. It's very good."

But Dickey rarely mentions in class his work or his friendships with well-known writers. He gave a lecture recently on the late poet W. H. Auden, and only afterwards, when questioned, did he concede he knew Auden "fairly well" in New York.

He has attracted several noted visiting writers to the campus. The British poet Stephen Spender substituted for him one term. William Styron and Robert Penn Warren both visited the campus at his request. Each year Dickey helps assemble a writers' series that may not be, as he insists, "the equal to any in the world," but is impressive nonetheless. The fiction writers John Barth and Peter Taylor came this year.

Dickey — who published his first book at age 37, after a promising career in advertising — remains prolific. He writes poems, essays and fiction. He wrote the copy for two large illustrated books: one about the South and one based on the Bible. He wrote the script for a television program on Jack London. His second children's book is scheduled for publication this fall.

And then there's the second novel, "Alnilam," named after a star in the constellation Orion, is now at 1,050 pages. Dickey says he's got another 350 pages to go.

He admits his work habits are peculiar. "The whole house is boobytrapped with typewriters," he said. "Each one has something different in it. I'll walk by one of them and maybe sit down and work for 30 minutes. I don't sit hour after hour. The sedentary aspect of writing has never appealed to me. I'm an active person."

He's clearly invigorated by his new family. His first wife, Maxine, died in 1979. He married Deborah Dodson about two months later and they have a four-year-old daughter, Bronwen.

Richard Calhoun, professor of English and the author of two books on Dickey, said Dickey's reputation with literary critics began to decline in the 1970s. Dickey began to experiment, Calhoun said, writing longer pieces that contrasted with the shorter, more lyrical poems that caught the critics' attention initially.

Calhoun also said some critics objected to Dickey's personality.

"They've taken Dickey as a show-off, as an anti-intellectual, which he's not," Calhoun said. "He's never really been accepted in New York and Boston. He's not their type."

No such bias against Dickey exists in Columbia. Here, Dickey is a source of pride — and stories.

Margaret Thomas/The Washington Post

Author Dickey: Bleeding for his students.

MOSCOW POSTCARD

'Brrreak' Dancing? Da

By Andrew Rosenthal
The Associated Press

MOSCOW — From the dim recesses of a darkened auditorium, someone shouts "brrreak" in heavily accented English..

A drummer dressed in black throws himself to the stage and begins to spin, gyrate and flip head over heels. Nearby, a guitarist jerks his body in a series of mechanical, robot-like gestures.

"Break dancing" and "freeze dancing" — crazes that have swept the West in recent years — made their public debut in Moscow recently to the wild applause of about 4,000 concertgoers.

The evening also included Beatles songs, electric jazz and numbers by contemporary rock groups.

The entire program was performed by the popular band Arsenal, whose middle-aged leader, Alexei Kozlov, is known for musical innovation, despite occasional resistance from unenthusiastic Soviet authorities.

Modern dance, music and clothing styles are slow to gain official acceptance, but somehow seep into Soviet society through back channels that include tapes, smuggled videos and incoming tourists.

So when Arsenal began its five-day engagement at the Druzhba (Friendship) Universal Hall of Sports, the audience recognized the tunes after just a few bars.

Most people in the audience wore the characteristic drab blue and brown of Soviet crowds, but a few teen-agers were dressed up in wrap-around sunglasses and gloves with the fingertips snipped off.

No other Soviet group is known to have performed break or freeze dancing publicly. But the teens were adept at the steps, which they practiced in the street outside while waiting for the band to emerge after the concert.

"People find out about music," Kozlov said in an interview. "They get the latest records by different means, gather in small places that diplomats have never heard of and supply friends with tapes."

The evening began with Kozlov — a goateed man in his late 40s — and his eight youthful musicians formally dressed in jackets and ties.

They played jazz at ear-splitting volume, with Kozlov moving from saxophone to clarinet to keyboards while the others played on Western drums, synthesizers and guitars. The final number in the set, a medley of songs by the Beatles, drew loud cheers and applause.

After the intermission, the scene changed.

Kozlov wore a many-colored pullover and a baseball cap topped with swim goggles. One guitarist, Pavel Bryun, was dressed entirely in yellow, with several pairs of sunglasses that he pulled off one by one as he danced.

As the bass guitar, drums and synthesizer took up a throbbing back beat, the band began their robotic steps, and it seemed more like something from a New York disco than a Soviet auditorium in a complex named after Lenin.

Arsenal went through its paces to tunes by Men at Work, Grace Jones and more Beatles as the audience's enthusiasm grew.

At one point, Nikolai Dryonin emerged from behind his drums and fell to the floor — gyrating on his shoulders, flopping around like a fish, and spinning on bended knees like a rock 'n' roll-crazed Cossack.

The crowd applauded and cheered, stamping their feet in time to the music. But it was a restrained concert by Western standards, and after the concert, the mood quickly reverted to a more somber pitch.

As the audience left the stands, a sweet, amplified woman's voice said over and over: "Good night dear comrades. The workers of the Druzhba sports hall wish you health, success in labor and a good journey home."

'Vargas Girls' Drawings Shown in San Francisco

United Press International

SAN FRANCISCO — The Vargas girls, drawings of alluring beauties that graced Esquire, Playboy, calendars and GI footlockers, have won recognition as art.

An exhibit of about 100 originals by the Peruvian-born artist Alfredo Vargas has opened at the San Francisco Art Exchange. For American soldiers in the 1940s, the Vargas girls in Esquire and Playboy were the fantasy symbol of the sex and beauty awaiting them at home. The exhibit of drawings, watercolors and Vargas memorabilia is the first such display of the work of the artist, who died in 1982.